#397

BILL NO. S=79-02-22

SPECIAL ORDINANCE NO. S-29-79

AN ORDINANCE AUTHORIZING AN AMENDMENT TO THE LEASE AGREEMENT BETWEEN THE CITY OF FORT WAYNE, INDIANA AND HARRISON HOUSE REALTY, INC. AND AN AMENDMENT TO THE LEASE GUARANTY AGREEMENT BETWEEN THE CITY OF FORT WAYNE, INDIANA AND SUPER VALU STORES, INC. HERETOFORE EXECUTED IN CONNECTION WITH THE ISSUANCE AND SALE OF $2,200,000.00 ECONOMIC DEVELOPMENT REVENUE BONDS, SERIES 1974 (SUPER VALU PROJECT) OF THE CITY OF FORT WAYNE, INDIANA PURSUANT TO SPECIAL ORDINANCE NO. S-39-74 OF THE COMMON COUNCIL OF THE CITY OF FORT WAYNE, INDIANA

WHEREAS, the City of Fort Wayne, Indiana (hereinafter called the "City") is a municipal corporation and political subdivision of the State of Indiana and by virtue of IC 1971, 18-6-4.5-1 through 18-6-4.5-28, inclusive, as amended (hereinafter called the "Act") is authorized and empowered to acquire economic development facilities and to lease said facilities as lessor to others to overcome insufficient employment opportunities and insufficient diversification of industry in and near the City and to promote the general economic welfare of the area in and near the City and to issue its economic development revenue bonds to pay all costs of purchase or construction of such economic development facilities, and to secure said bonds by a trust indenture creating a security interest in such economic development facilities; and

WHEREAS, in 1974, the Fort Wayne Economic Development Commission (the "Commission") found by written resolution that the economic welfare of the City would be benefited by the acquisition and leasing to Harrison House Realty, Inc. ("Harrison House") of economic development facilities, such lease to be guaranteed by Super Valu Stores, Inc. ("Super Valu"), and, after giving notice in accordance with the Act, the Commission held a public hearing on the proposed financing and adopted a resolution finding that the proposed financing complied with the Act, approved the financing and approved the form and terms of the economic development revenue bonds proposed to be issued by the City to pay a portion of the cost of such facilities, the lease, guaranty and indenture, which resolution and other instruments and information pertaining to the proposed financing were transmitted to this Common Council; and

WHEREAS, this Common Council adopted Resolution No. R-18-74 finding that the proposed financing would be of benefit to the economic welfare of the City, approving the proposed financing and authorizing the issuance by the City of $2,200,000.00 principal amount of Economic Development Revenue Bonds, Series 1974 (Super Valu Project), having terms and provisions and secured as provided by a Mortgage and Indenture of Trust dated as of February 1, 1974 between the City and Fort Wayne National Bank (the "Trustee") and a Lease Agreement dated as of February 1, 1974 (the "Lease") between the City and Harrison House as Lessee and a Lease Guaranty Agreement dated as of February 1, 1974 (the "Guaranty") between the City and Super Valu as Guarantor; and

WHEREAS, this Common Council by Special Ordinance No. S-39-74 authorized the issuance and sale of said Economic Development Revenue Bonds, authorized the execution by the City of a Mortgage and Indenture of Trust securing the Bonds, the Lease with Harrison House as Lessee and the Guaranty with Super Valu as Guarantor, all of which documents are now in full force and effect; and

WHEREAS, Harrison House, the Lessee under the Lease, has advised the City that it proposes to assign to PYA/Monarch Food Services, Inc., a Delaware corporation ("Monarch"), which is a wholly-owned subsidiary of Consolidated Foods Corporation, a Maryland corporation ("Consolidated"), all rights and obligations of Harrison House as Lessee under the Lease, and Super Valu has advised the City that it proposes to assign to Consolidated all rights and obligations of Super Valu under the Guaranty, such assignments being on the condition that the Lease and the Guaranty are first amended to provide that upon assignment Harrison House shall be relieved of all liability as Lessee under the Lease and Super Valu shall be relieved of all liability as Guarantor under the Guaranty; and

WHEREAS, Monarch and Consolidated have advised the City that Monarch proposes to accept the assignment from Harrison House and to assume all obligations of Harrison House as Lessee under the Lease and that Consolidated proposes to accept the assignment from Super Valu and to assume all obligations of Super Valu as Guarantor under the Guaranty; and

WHEREAS, in implementation of this proposal, Harrison House, Super Valu, Monarch and Consolidated have submitted to this Common Council a proposed form of First Amendment to Lease and First Amendment to Lease Guaranty Agreement, dated as of February 24, 1979 (the "Amendment"), a proposed form of Assignment of Lease Agreement and a proposed form of Assignment of Lease Guaranty Agreement;

NOW, THEREFORE, BE IT ORDAINED BY THE COMMON COUNCIL OF THE CITY OF FORT WAYNE, INDIANA, AS FOLLOWS:

SECTION 1. Public Benefits. The Common Council of the City hereby finds and determines that the public benefits heretofore found and determined to exist by this Common Council in Special Ordinance No. S-39-74 are in no way affected or diminished by the Amendment and that the Amendment should therefore be approved.

SECTION 2. Approval of First Amendment to Lease and First Amendment to Lease Guaranty Agreement. The Mayor is hereby authorized to execute, and the Clerk is hereby authorized to attest, the First Amendment to Lease and First Amendment to Lease Guaranty Agreement, dated as of February 24, 1979 (the "Amendment"), and the Clerk is hereby directed to insert a copy of the Amendment, in the form submitted to this meeting and approved hereby, in the minutes of this Common Council and to certify thereon that the same is the form of such instrument submitted to this Common Council approved hereby, and identified herein as the Amendment, and to keep the same on file. The Amendment shall be executed in substantially the form submitted to this meeting with such changes as are approved by the officers executing it, their execution to

constitute conclusive evidence of such approval. By the Amendment, Harrison House may assign all of its rights and obligations under the Lease to Monarch and thereby be relieved of all further liability under the Lease provided that Monarch assumes all obligations of the Lessee under the Lease, and, by the Amendment, Super Valu may assign all of its rights and obligations under the Guaranty to Consolidated and thereby be relieved of all further liability under the Guaranty provided that Consolidated assumes all obligations of the Guarantor under the Guaranty.

SECTION 3. Approval of Assignment of Lease Agreement and Assignment of Lease Guaranty Agreement. The form of Assignment of Lease Agreement whereby Harrison House assigns to Monarch its entire interest in the Lease, as amended by the Amendment, and the Assignment of Lease Guaranty Agreement whereby Super Valu assigns to Consolidated its entire interest in the Guaranty, as amended by the Amendment, are hereby approved in the form submitted to this meeting, and the Clerk is hereby directed to insert a copy of the Assignment of Lease Agreement and a copy of the Assignment of Lease Guaranty Agreement in the form submitted to this meeting and approved hereby in the minutes of this Common Council and to certify thereon that the same is the form of such instrument submitted to this Common Council approved hereby and to keep the same on file.

SECTION 4. Prior Ordinance Otherwise Remains in Full Force and Effect. Except to the extent that the authorization of the Amendment shall be deemed an amendment to Special Ordinance No. S-39-74, that Ordinance remains in full force and effect.

SECTION 5. General. The Mayor and the Clerk be and they are each hereby authorized and directed, in the name of and on behalf of the City, to execute any and all instruments, perform any and all acts, approve any and all matters and do any and all things deemed by them, or either of them, to be necessary or desirable in order to carry out the purposes of this Ordinance. The Mayor and the Clerk, and each of them, are hereby authorized to execute and deliver the Amendment in substantially the form of said document before this Common Council, on behalf of the City, with such changes therein as such officials with the advice of counsel may determine, as conclusively evidenced by his execution thereof, to be advisable and in the best interests of the City and in conformance with this Ordinance, provided, however, that before the Amendment is executed by the Mayor and the Clerk, the written consent of the Trustee shall be obtained as required by Section 12.9 of the Lease and by the Guaranty, and further provided that the City Attorney shall be satisfied that the City will be fully indemnified against any expense incurred in connection with the transaction herein contemplated.

Upon the approval of this Ordinance by the Mayor, the Clerk is authorized and directed forthwith to transmit to Fort Wayne National Bank, as Trustee, a copy of this Ordinance, which shall constitute the request of the City to the Trustee to consent to the Amendment.

SECTION 6. Effective Date. This Ordinance shall be in full force and effect immediately upon its adoption by the Common Council and approval by the Mayor.

Vivian G. Schmidt
COUNCILMAN

APPROVED AS TO FORM
AND LEGALITY,
CITY ATTORNEY

Read the first time in full and on motion by V. Schmidt, seconded by Stier, and duly adopted, read the second time by title and referred to the Committee on Finance ~~(and the City Plan Commission for recommendation) and Public Hearing to be held after due legal notice, at the Council Chambers, City-County Building, Fort Wayne, Indiana, on ______, the ______ day of ______, 19__, at ______ o'clock ____ M., E.S.T.~~

DATE: 2-13-79 Charles W. Westerman
CITY CLERK

Read the third time in full and on motion by V. Schmidt, seconded by Hinga, and duly adopted, placed on its passage.

PASSED ~~(LOST)~~ by the following vote:

	AYES	NAYS	ABSTAINED	ABSENT	TO-WIT:
TOTAL VOTES	7	1		1	
BURNS	X				
HINGA	X				
HUNTER		X			
MOSES	X				
NUCKOLS	X				
SCHMIDT, D.				X	
SCHMIDT, V.	X				
STIER	X				
TALARICO	X				

DATE: 2-27-79 Charles W. Westerman
CITY CLERK

Passed and adopted by the Common Council of the City of Fort Wayne, Indiana, as ~~(ZONING MAP) (GENERAL) (ANNEXATION)~~ (SPECIAL) Special ~~(APPROPRIATION)~~ ORDINANCE ~~(RESOLUTION)~~ No. S-29-79 on the 27th day of February, 1979.

ATTEST: (SEAL)

Charles W. Westerman
CITY CLERK

Winfield C. Moses Jr.
PRESIDING OFFICER

Presented by me to the Mayor of the City of Fort Wayne, Indiana, on the 28th day of February, 1979, at the hour of 3:00 o'clock P M., E.S.T.

Charles W. Westerman
CITY CLERK

Approved and signed by me this 7th day of March, 1979, at the hour of 2:30 o'clock P M., E.S.T.

Robert E. Armstrong
MAYOR

Bill No. S-79-02-22

REPORT OF THE COMMITTEE ON FINANCE

We, your Committee on Finance to whom was referred an Ordinance AUTHORIZING AN AMENDMENT TO THE LEASE AGREEMENT BETWEEN THE CITY OF FORT WAYNE, INDIANA AND HARRISON HOUSE REALTY, INC. AND AN AMENDMENT TO THE LEASE GUARANTY AGREEMENT BETWEEN THE CITY OF FORT WAYNE, INDIANA AND SUPER VALU STORES, INC. HERETOFORE EXECUTED IN CONNNECTION WITH THE ISSUANCE AND SALE OF $2,200,000.00 ECONOMIC DEVELOPMENT REVENUE BONDS, SERIES 1974 (SUPER VALU PROJECT) OF THE CITY OF FORT WAYNE, INDIANA PURSUANT TO SPECIAL ORDINANCE NO. S-39-74 OF THE COMMON COUNCIL OF THE CITY OF FORT WAYNE, INDIANA

have had said Ordinance under consideration and beg leave to report back to the Common Council that said Ordinance Do PASS.

VIVIAN G. SCHMIDT - CHAIRMAN	Vivian G. Schmidt
WILLIAM T. HINGA - VICE CHAIRMAN	William T. Hinga
JAMES S. STIER	James S. Stier
JOHN NUCKOLS	John Nuckols
DONALD J. SCHMIDT	DJ Schmidt

DATE 2-27-79 CONCURRED IN CHARLES ... CITY CLERK

January 12, 1979

SUPER VALU

SUPER VALU STORES, INC.
101 JEFFERSON AVENUE SOUTH
HOPKINS, MINNESOTA 55343
TELEPHONE 932-4444 / AREA 612

City Council
City of Fort Wayne, Indiana

RE: City of Fort Wayne, Indiana Economic Development Revenue Commission - Series 1974 (Super Valu Stores, Inc. Project)

Gentlemen:

This letter is to advise you, in respect to the above-referenced matter, that:

1. PYA/Monarch Food Services, Inc., a Delaware corporation and a wholly-owned subsidiary of Consolidated Foods Corporation, proposes to accept an assignment from Harrison House Realty, Inc. of that certain Lease Agreement dated as of February 1, 1974 by and between the City and Harrison House Realty, Inc. and to assume all obligations of Harrison House Realty, Inc. as lessee thereunder; and

2. Consolidated Foods Corporation, a Maryland corporation, proposes to accept an assignment from Super Valu Stores, Inc. of that certain Lease Guaranty Agreement dated as of February 1, 1974 by and between the City and Super Valu Stores, Inc. and to assume all obligations of Super Valu Stores, Inc. as guarantor thereunder.

We understand that you have been furnished copies of the proposed assignments and other relevant documents you require and we ask that you approve this transaction.

Please contact the undersigned if you have any questions in respect to this matter.

Very truly yours,

SUPER VALU STORES, INC.

By: [illegible]

Its: Vice Pres & Secretary

HARRISON HOUSE REALTY, INC.

By: [illegible]

Its: Vice Pres. & Secretary

CONSOLIDATED
FOODS CORPORATION
COMPANIES RESPONSIVE TO CONSUMER NEEDS

EXECUTIVE OFFICES

January 12, 1979

City Council
City of Fort Wayne, Indiana

Re: City of Fort Wayne, Indiana Economic Development Revenue Commission - Series 1974 (Super Valu Stores, Inc. Project)

Gentlemen:

This letter is to advise you, in respect to the above-referenced matter, that:

1. PYA/Monarch Food Services, Inc., a Delaware corporation and a wholly-owned subsidiary of Consolidated Foods Corporation, proposes to accept an assignment from Harrison House Realty, Inc., of that certain Lease Agreement dated as of February 1, 1974, by and between the City and Harrison House Realty, Inc., and to assume all obligations of Harrison House Realty, Inc., as lessee thereunder; and

2. Consolidated Foods Corporation, a Maryland corporation, proposes to accept an assignment from Super Valu Stores, Inc., of that certain Lease Guaranty Agreement dated as of February 1, 1974, by and between the City and Super Valu Stores, Inc., and to assume all obligations of Super Valu Stores, Inc., as guarantor thereunder.

We understand that you have been furnished copies of the proposed assignments and other relevant documents you require and ask that you approve this transaction.

135 SOUTH LA SALLE STREET • CHICAGO, ILLINOIS 60603 • TELEPHONE: (312) 726-6414

Please contact the undersigned if you have any questions in respect to this matter.

Very truly yours,

CONSOLIDATED FOODS CORPORATION

By: Gordon B. Newman
Senior Vice President

PYA/MONARCH FOOD SERVICES, INC.

By: Gordon B. Newman
Vice President

CONSOLIDATED
FOODS CORPORATION
COMPANIES RESPONSIVE TO CONSUMER NEEDS

EXECUTIVE OFFICES

January 22, 1979

City Council
City of Fort Wayne, Indiana

Re: City of Fort Wayne, Indiana Economic Development Revenue Commission Series 1974 (Super Value Stores, Inc. Project)

Gentlemen:

This letter is to advise you, in respect to the above-referenced matter, that PYA/Monarch Food Services Inc., intends to continue the business formerly conducted by Super Valu Stores, Inc., at the Fort Wayne premises which are the subject of the above-referenced matter and does not contemplate any material change in the number of persons employed in the business.

Sincerely yours,

PYA/MONARCH FOOD SERVICES INC.

By: Gordon P. Newman
Vice President

135 SOUTH LA SALLE STREET • CHICAGO, ILLINOIS 60603 • TELEPHONE: (312) 726-6414

ASSIGNMENT OF LEASE AGREEMENT

KNOW ALL MEN BY THESE PRESENTS, That Harrison House Realty, Inc., a Minnesota corporation ("Harrison"), in consideration of One Dollar and other valuable consideration to it in hand paid by PYA/Monarch Food Services Inc., a Delaware corporation ("Monarch"), does hereby sell, assign and transfer unto Monarch, and its successors and assigns, effective as of February 24, 1979, the Lessee's interests in that certain Lease dated as of February 1, 1974 between Harrison as Lessee and the City of Fort Wayne, Indiana, a municipal corporation organized and existing under the Constitution and the laws of the State of Indiana, relating to a building and the appurtenances thereto located on the tract of land in the County of Allen, State of Indiana, described as follows:

> A parcel of land located in the Northwest One Quarter of Section 1, Township 30 North, Range 11 East, Allen County, Indiana, more particularly described as follows, to-wit: Commencing at the Northeast corner of the Northwest One-Quarter of Section 1, Township 30 North, Range 11 East, Allen County, Indiana; thence South along the North-South centerline of Section 1, a distance of 1630.01 feet; thence deflecting right 90°00' a distance of 40.0 feet to the West right-of-way line of Hadley Road, also being the point of beginning.
>
> Beginning at the above described point; thence continuing in the same westerly direction as the last described line along the South right-of-way line of Vicksburg Pike a distance of 900.20 feet; thence deflecting left 90°00' a distance of 405.23 feet to a point on the North right-of-way line of the Norfolk & Western Railroad; thence by a deflection left of 80°04'30" along said North right-of-way line of the Norfolk & Western Railroad a distance of 913.88 feet to the West right-of-way line of Hadley Road; thence deflecting left 99°55'30" along the West right-of-way line of Hadley Road a distance of 562.68 feet to the point of beginning, containing 10.00 acres of land.

Such sale, assignment and transfer is subject to all of the terms, covenants and conditions contained in such lease to be kept or performed by the Lessee thereunder from and after February

24, 1979, which terms, covenants and conditions Monarch, by the acceptance of this Assignment, hereby assumes and agrees to keep and perform.

Harrison hereby covenants that it has good right to sell, transfer and assign the Lessee's interests in said lease.

IN TESTIMONY WHEREOF, Harrison has caused these presents to be duly executed as of the 24th day of February, 1979.

HARRISON HOUSE REALTY, INC.

In the Presence of:

______________________________ By______________________________

Its ______________________________

____

(Seal)

STATE OF ____________)
)SS
COUNTY OF ___________)

On this _____ day of __________________, 1979, before me, a Notary Public within and for said County, personally appeared ____, to me personally known, who, being by me duly sworn, did say that he is the __________________________ of Harrison House Realty, Inc., and that the seal affixed to said instrument is the corporate seal of said corporation, and that said instrument was signed and sealed in behalf of said corporation by authority of its Board of Directors and said ____________________________________ acknowledged said instrument to be the free act and deed of said corporation.

(Seal)

____
Notary Public

The above Assignment of Lease is hereby accepted as of the 24th day of February, 1979.

PYA/MONARCH FOOD SERVICES INC.

In the Presence of:

______________________________ By______________________________

Its______________________________

____

(Seal)

STATE OF ___________)
) SS
COUNTY OF __________)

On this _____ day of ______________________, 1979, before me, a Notary Public within and for said County, personally appeared ____, tc me personally known, who, being by me duly sworn, did says that he is the _______________________ of PYA/Monarch Food Services Inc., and that the seal affixed to said instrument is the corporate seal of said corporation, and that said instrument was signed and sealed in behalf of said corporation by authority of its Board of Directors and said ____________________________________ acknowledged said instrument to be the free act and deed of said corporation.

(Seal)

____
Notary Public

This instrument was drafted by
Dorsey, Windhorst, Hannaford,
Whitney & Halladay
2300 First National Bank Building
Minneapolis, Minnesota 55402

ASSIGNMENT OF LEASE AGREEMENT

KNOW ALL MEN BY THESE PRESENTS, That Harrison House Realty, Inc., a Minnesota corporation ("Harrison"), in consideration of One Dollar and other valuable consideration to it in hand paid by PYA/Monarch Food Services Inc., a Delaware corporation ("Monarch"), does hereby sell, assign and transfer unto Monarch, and its successors and assigns, effective as of February 24, 1979, the Lessee's interests in that certain Lease dated as of February 1, 1974 between Harrison as Lessee and the City of Fort Wayne, Indiana, a municipal corporation organized and existing under the Constitution and the laws of the State of Indiana, relating to a building and the appurtenances thereto located on the tract of land in the County of Allen, State of Indiana, described as follows:

> A parcel of land located in the Northwest One Quarter of Section 1, Township 30 North, Range 11 East, Allen County, Indiana, more particularly described as follows, to-wit: Commencing at the Northeast corner of the Northwest One-Quarter of Section 1, Township 30 North, Range 11 East, Allen County, Indiana; thence South along the North-South centerline of Section 1, a distance of 1630.01 feet; thence deflecting right 90°00' a distance of 40.0 feet to the West right-of-way line of Hadley Road, also being the point of beginning.
>
> Beginning at the above described point; thence continuing in the same westerly direction as the last described line along the South right-of-way line of Vicksburg Pike a distance of 900.20 feet; thence deflecting left 90°00' a distance of 405.23 feet to a point on the North right-of-way line of the Norfolk & Western Railroad; thence by a deflection left of 80°04'30" along said North right-of-way line of the Norfolk & Western Railroad a distance of 913.88 feet to the West right-of-way line of Hadley Road; thence deflecting left 99°55'30" along the West right-of-way line of Hadley Road a distance of 562.68 feet to the point of beginning, containing 10.00 acres of land.

Such sale, assignment and transfer is subject to all of the terms, covenants and conditions contained in such lease to be kept or performed by the Lessee thereunder from and after February

24, 1979, which terms, covenants and conditions Monarch, by the acceptance of this Assignment, hereby assumes and agrees to keep and perform.

Harrison hereby covenants that it has good right to sell, transfer and assign the Lessee's interests in said lease.

IN TESTIMONY WHEREOF, Harrison has caused these presents to be duly executed as of the 24th day of February, 1979.

HARRISON HOUSE REALTY, INC.

In the Presence of:

_____________________________ By_________________________________

Its _________________________

____

(Seal)

STATE OF ____________)
)SS
COUNTY OF ___________)

On this _____ day of __________________, 1979, before me, a Notary Public within and for said County, personally appeared ____________________________________, to me personally known, who, being by me duly sworn, did say that he is the ________________________ of Harrison House Realty, Inc., and that the seal affixed to said instrument is the corporate seal of said corporation, and that said instrument was signed and sealed in behalf of said corporation by authority of its Board of Directors and said _________________________________ acknowledged said instrument to be the free act and deed of said corporation.

(Seal)

____
Notary Public

The above Assignment of Lease is hereby accepted as of the 24th day of February, 1979.

PYA/MONARCH FOOD SERVICES INC.

In the Presence of:

_____________________________ By_________________________________

Its__________________________

____

(Seal)

STATE OF ___________)
) SS
COUNTY OF __________)

On this _____ day of ______________________, 1979, before me, a Notary Public within and for said County, personally appeared ____, tc me personally known, who, being by me duly sworn, did says that he is the _______________________ of PYA/Monarch Food Services Inc., and that the seal affixed to said instrument is the corporate seal of said corporation, and that said instrument was signed and sealed in behalf of said corporation by authority of its Board of Directors and said ____________________________________ acknowledged said instrument to be the free act and deed of said corporation.

(Seal)

____
Notary Public

This instrument was drafted by
Dorsey, Windhorst, Hannaford,
Whitney & Halladay
2300 First National Bank Building
Minneapolis, Minnesota 55402

ASSIGNMENT OF LEASE AGREEMENT

KNOW ALL MEN BY THESE PRESENTS, That Harrison House Realty, Inc., a Minnesota corporation ("Harrison"), in consideration of One Dollar and other valuable consideration to it in hand paid by PYA/Monarch Food Services Inc., a Delaware corporation ("Monarch"), does hereby sell, assign and transfer unto Monarch, and its successors and assigns, effective as of February 24, 1979, the Lessee's interests in that certain Lease dated as of February 1, 1974 between Harrison as Lessee and the City of Fort Wayne, Indiana, a municipal corporation organized and existing under the Constitution and the laws of the State of Indiana, relating to a building and the appurtenances thereto located on the tract of land in the County of Allen, State of Indiana, described as follows:

> A parcel of land located in the Northwest One Quarter of Section 1, Township 30 North, Range 11 East, Allen County, Indiana, more particularly described as follows, to-wit: Commencing at the Northeast corner of the Northwest One-Quarter of Section 1, Township 30 North, Range 11 East, Allen County, Indiana; thence South along the North-South centerline of Section 1, a distance of 1630.01 feet; thence deflecting right 90°00' a distance of 40.0 feet to the West right-of-way line of Hadley Road, also being the point of beginning.
>
> Beginning at the above described point; thence continuing in the same westerly direction as the last described line along the South right-of-way line of Vicksburg Pike a distance of 900.20 feet; thence deflecting left 90°00' a distance of 405.23 feet to a point on the North right-of-way line of the Norfolk & Western Railroad; thence by a deflection left of 80°04'30" along said North right-of-way line of the Norfolk & Western Railroad a distance of 913.88 feet to the West right-of-way line of Hadley Road; thence deflecting left 99°55'30" along the West right-of-way line of Hadley Road a distance of 562.68 feet to the point of beginning, containing 10.00 acres of land.

Such sale, assignment and transfer is subject to all of the terms, covenants and conditions contained in such lease to be kept or performed by the Lessee thereunder from and after February

24, 1979, which terms, covenants and conditions Monarch, by the acceptance of this Assignment, hereby assumes and agrees to keep and perform.

Harrison hereby covenants that it has good right to sell, transfer and assign the Lessee's interests in said lease.

IN TESTIMONY WHEREOF, Harrison has caused these presents to be duly executed as of the 24th day of February, 1979.

HARRISON HOUSE REALTY, INC.

In the Presence of:

_____________________________ By_____________________________

Its _________________________

____

(Seal)

STATE OF ____________)
)SS
COUNTY OF ___________)

On this _____ day of ________________, 1979, before me, a Notary Public within and for said County, personally appeared ______________________________________, to me personally known, who, being by me duly sworn, did say that he is the ________________________ of Harrison House Realty, Inc., and that the seal affixed to said instrument is the corporate seal of said corporation, and that said instrument was signed and sealed in behalf of said corporation by authority of its Board of Directors and said _________________________________ acknowledged said instrument to be the free act and deed of said corporation.

(Seal)

____
Notary Public

The above Assignment of Lease is hereby accepted as of the 24th day of February, 1979.

PYA/MONARCH FOOD SERVICES INC.

In the Presence of:

_____________________________ By_____________________________

Its_________________________

____

(Seal)

STATE OF __________)
) SS
COUNTY OF __________)

On this _____ day of ____________________, 1979, before me, a Notary Public within and for said County, personally appeared ____, tc me personally known, who, being by me duly sworn, did says that he is the ______________________ of PYA/Monarch Food Services Inc., and that the seal affixed to said instrument is the corporate seal of said corporation, and that said instrument was signed and sealed in behalf of said corporation by authority of its Board of Directors and said ___________________________________ acknowledged said instrument to be the free act and deed of said corporation.

(Seal)

____
Notary Public

This instrument was drafted by
Dorsey, Windhorst, Hannaford,
Whitney & Halladay
2300 First National Bank Building
Minneapolis, Minnesota 55402

FIRST AMENDMENT TO LEASE AGREEMENT
AND
FIRST AMENDMENT TO LEASE GUARANTY AGREEMENT

BETWEEN

CITY OF FORT WAYNE, INDIANA

AND

HARRISON HOUSE REALTY, INC.,
as Tenant

AND

SUPER VALU STORES, INC.,
as Guarantor

AND

PYA/MONARCH FOOD SERVICES INC.

AND

CONSOLIDATED FOODS CORPORATION

Dated February 24, 1979

This instrument was drafted by
Dorsey, Windhorst, Hannaford,
Whitney & Halladay
2300 First National Bank Building
Minneapolis, Minnesota 55402

THIS FIRST AMENDMENT TO LEASE AGREEMENT AND FIRST AMENDMENT TO LEASE GUARANTY AGREEMENT, Dated as of February 24, 1979, by and between the CITY OF FORT WAYNE, INDIANA (the "City"), HARRISON HOUSE REALTY, INC., a Minnesota corporation (the "Lessee"), SUPER VALU STORES, INC., a Delaware corporation (the "Guarantor"), PYA/MONARCH FOOD SERVICES INC., a Delaware corporation ("Monarch") and CONSOLIDATED FOODS CORPORATION, a Maryland corporation ("Consolidated"), WITNESSETH:

ARTICLE 1
Recitals and Representations

Section 1.01. The City is authorized by Sections 18-6-4.5-1 to 18-6-4.5-30, inclusive, of the Indiana Code (the "Act"), to acquire, construct and improve any land, facilities and equipment thereon, including facilities for the carrying on of commercial or business activities, and to lease the same as a project to users for the purposes set forth in the Act.

Section 1.02. Pursuant to and in accordance with that authorization, the City has heretofore provided for acquisition of certain land, buildings and equipment and other items of personal property, and leased the same to the Lessee by a Lease Agreement dated as of February 1, 1974 (the "Lease"). Pursuant to a Lease Guaranty Amendment dated as of February 1, 1974 (the "Guaranty") between the City and the Guarantor, the Guarantor has guaranteed the obligations of the Lessee under the Lease.

Section 1.03. The Lessee represents to and covenants and agrees with the City that the Lessee is not now in default under the Lease, and reaffirms all of the representations contained in Section 2.2 of the Lease. The Guarantor represents to and covenants and agrees with the City that the Guarantor is not now in default under the Guaranty.

Section 1.04. Section 9.1 of the Lease provides that the Lessee may assign the Lease and sublease the Project in whole or in part, subject to certain specified conditions, including a condition that no assignment or sublease shall relieve the Lessee from primary liability for all rents and other payments due and for the performance of all other obligations required under the Lease.

Section 1.05. The Lessee has assigned its entire interest in the Lease to Monarch by an Assignment of Lease Agreement dated as of February 24, 1979, a copy of which is attached hereto as Exhibit A. The Guarantor has assigned its entire interest in the Guaranty to Consolidated by an Assignment of Lease Guaranty Agreement dated as of February 24, 1979, a copy of which is attached hereto as Exhibit B. Monarch and the Lessee now propose that the Lease be amended to relieve Harrison House Realty, Inc. from all liability on the Lease, and the Guarantor

and Consolidated now propose that the Guaranty be amended to relieve Super Valu Stores, Inc. from all liability on the Guaranty, after execution of this First Amendment to Lease Agreement and First Amendment to Lease Guaranty Agreement (the "First Amendment").

Section 1.06. Section 12.9 of the Lease provides that the Lease may not be effectively amended without the written consent of the Fort Wayne National Bank, as Trustee under the Mortgage and Indenture of Trust from the City dated as of February 1, 1974. The Guaranty likewise provides that it may not be amended without the prior written consent of the Trustee. Section 1302 of the Mortgage and Indenture of Trust provides that, with certain specified exceptions, neither the City nor the Trustee shall consent to an amendment of the Lease or Guaranty without the written approval or consent of the holders of at least two-thirds in aggregate principal amount of the Bonds outstanding under the Mortgage and Indenture of Trust.

Section 1.07. The holders of at least two-thirds in aggregate principal amount of the Bonds have consented to this First Amendment, and the Trustee has given its written consent in the form attached hereto as Exhibit C.

ARTICLE 2
Amendment of Lease

Section 2.01. Pursuant to the authorization outlined above, and in accordance with the relevant provisions of the Lease, the Lease is hereby amended by adding thereto a new Section 9.1A as follows:

"Section 9.1A. Assignment to PYA/Monarch Food Services Inc. Notwithstanding the limitations contained in Section 9.1 hereof or any other provision of this Agreement, the Lessee may, on or before April 1, 1979, assign its entire interest in this Agreement to PYA/Monarch Food Services Inc., a Delaware corporation, and upon filing a copy of such assignment with the City and Trustee the Lessee shall be relieved of all further liability under this Agreement, provided that by such assignment PYA/Monarch Food Services Inc. expressly assumes all obligations of the Lessee under this Agreement as fully and completely as though expressly named and designated as Lessee therein."

Section 2.02. Pursuant to the authorizations outlined above, and in accordance with the relevant provisions of the Guaranty, the Guaranty is hereby amended by adding thereto a new paragraph as follows:

"Assignment to Consolidated Foods Corporation. Notwithstanding any other provision of this Lease Guaranty Agreement,

the Guarantor may, on or before April 1, 1979, assign its entire interest in this Lease Guaranty Agreement to Consolidated Foods Corporation, a Maryland corporation, and upon filing a copy of such assignment with the Issuer and Trustee, the Guarantor shall be relieved of all further liability under this Lease Guaranty Agreement, provided that by such assignment Consolidated Foods Corporation expressly assumes all obligations of the Guarantor under this Lease Guaranty Agreement as fully and completely as though expressly named and designated as Guarantor therein."

Section 2.03. The provisions of any other document to the contrary notwithstanding, it is expressly agreed by the parties hereto that Monarch has expressly assumed all obligations of the Lessee under the Lease as fully and completely as though expressly named and designated as Lessee therein, and that Harrison House Realty, Inc. is relieved of all further liability under the Lease, and that Consolidated has expressly assumed all obligations of the Guarantor under the Guaranty as fully and completely as though expressly named and designated as Guarantor therein, and that Super Valu Stores, Inc. is relieved from all further liability under the Guaranty.

IN WITNESS WHEREOF, The City, the Lessee, the Guarantor, Monarch and Consolidated have caused this First Amendment to Lease Agreement and First Amendment to Lease Guaranty Agreement to be executed in their respective corporate names and their respective corporate seals to be hereunto affixed and attested by their authorized officers, all as of the date above written.

CITY OF FORT WAYNE, INDIANA

By ______________________________
Mayor

(SEAL)

Attest ______________________________
City Clerk

HARRISON HOUSE REALTY, INC.

By ______________________________
Its ______________________________

Attest ______________________________
Its ______________________________

(SEAL)

PYA/MONARCH FOOD SERVICES INC.

By________________________________
Its____________________________

Attest____________________________
(SEAL) Its____________________________

SUPER VALU STORES, INC.

By________________________________
Its____________________________

Attest____________________________
(SEAL) Its____________________________

CONSOLIDATED FOODS CORPORATION

By________________________________
Its____________________________

Attest____________________________
(SEAL) Its____________________________

Pursuant to Section 12.9 of that certain Lease Agreement, dated as of February 1, 1974, between the City of Fort Wayne, Indiana (the "City") and Harrison House Realty, Inc., and pursuant to that certain Lease Guaranty Agreement, dated as of February 1, 1974, between the City and Super Valu Stores, Inc., the holders of not less than two-thirds in aggregate principal amount of the Industrial Development Revenue Bonds (Super Valu Project), Series 1974 of the City issued pursuant to that certain Mortgage and Indenture of Trust, dated as of February 1, 1974 (the "Indenture"), between the City and the undersigned as Trustee having given their consent to the execution and delivery of the foregoing First Amendment to Lease Agreement and First Amendment to Lease Guaranty Agreement (the "Amendments") pursuant to Section 1302 of the Indenture, the undersigned as Trustee hereby consents to the execution of the Amendments.

FORT WAYNE NATIONAL BANK, as Trustee

By________________________________
Its____________________________

By________________________________
(SEAL) Its____________________________

STATE OF ______________)
) SS
COUNTY OF _____________)

On this _____ day of ________________, 1979, before me, a Notary Public in and for said county and state, personally appeared __________________________ and ________________________, to me personally known and known to me to be the same persons who executed the within and foregoing instrument, who, being by me duly sworn, did depose, acknowledge and say: That they reside in Fort Wayne, Indiana; that they are respectively the Mayor and City Clerk of the City of Fort Wayne, Indiana, the governmental subdivision described in and which executed the foregoing instrument; that they know the seal of said City, and that the seal affixed to said instrument is the seal of said City; that said instrument was signed and sealed on behalf of said City by authority of its governing body; and they acknowledge the execution of said instrument to be the voluntary act and deed of said City by it voluntarily executed.

____
Notary Public

My Commission Expires:
(NOTARIAL SEAL)

STATE OF ________________)
) SS
COUNTY OF _______________)

On this _____ day of __________________, 1979, before me, a Notary Public in and for said county and state, personally appeared __________________________ and ______________________, to me personally known and known to me to be the same persons who executed the within and foregoing instrument, who, being by me duly sworn, did depose, acknowledge and say: That they reside in _________________ County, in the State of ____________________; they they are, respectively, the _________________________ and ______________________ of Harrison House Realty, Inc., the corporation described in and which executed the foregoing instrument; that they know the seal of said corporation, and that the seal affixed to said instrument is the seal of said corporation; that said instrument was signed and sealed on behalf of the said corporation by authority of its Board of Directors; and they acknowledged the execution of said instrument to be the voluntary act and deed of said corporation by it voluntarily executed.

____
Notary Public

My Commission Expires:
(NOTARIAL SEAL)

STATE OF ________________)
) SS
COUNTY OF ______________)

On this _____ day of __________________, 1979, before me, a Notary Public in and for said county and state, personally appeared ________________________ and ______________________, to me personally known and known to me to be the same persons who executed the within and foregoing instrument, who, being by me duly sworn, did depose, acknowledge and say: That they reside in ________________ County, in the State of ____________________; they they are, respectively, the ________________________ and ______________________ of PYA/Monarch Food Services Inc., the corporation described in and which executed the foregoing instrument; that they know the seal of said corporation, and that the seal affixed to said instrument is the seal of said corporation; that said instrument was signed and sealed on behalf of the said corporation by authority of its Board of Directors; and they acknowledged the execution of said instrument to be the voluntary act and deed of said corporation by it voluntarily executed.

____
Notary Public

My Commission Expires:
(NOTARIAL SEAL)

STATE OF ________________)
) SS
COUNTY OF ______________)

On this _____ day of ____________________, 1979, before me, a Notary Public in and for said county and state, personally appeared ________________________ and ______________________, to me personally known and known to me to be the same persons who executed the within and foregoing instrument, who, being by me duly sworn, did depose, acknowledge and say: That they reside in ________________ County, in the State of ____________________; that they are, respectively, the ________________________ and ______________________ of Super Valu Stores, Inc., the corporation described in and which executed the foregoing instrument; they they know the seal of said corporation, and that the seal affixed to said instrument is the seal of said corporation; that said instrument was signed and sealed on behalf of the said corporation by authority of its Board of Directors; and they acknowledged the execution of said instrument to be the voluntary act and deed of said corporation by it voluntarily executed.

____
Notary Public

My Commission Expires:
(NOTARIAL SEAL)

STATE OF ________________)
) SS
COUNTY OF ______________)

On this _____ day of __________________, 1979, before me, a Notary Public in and for said county and state, personally appeared _________________________ and _______________________, to me personally known and known to me to be the same persons who executed the within and foregoing instrument, who, being by me duly sworn, did depose, acknowledge and say: That they reside in ________________ County, in the State of _____________________; they they are, respectively, the ________________________ and ______________________ of Consolidated Foods Corporation, the corporation described in and which executed the foregoing instrument; that they know the seal of said corporation, and that the seal affixed to said instrument is the seal of said corporation; that said instrument was signed and sealed on behalf of the said corporation by authority of its Board of Directors; and they acknowledged the execution of said instrument to be the voluntary act and deed of said corporation by it voluntarily executed.

____
Notary Public

My Commission Expires:
(NOTARIAL SEAL)

STATE OF ________________)
) SS
COUNTY OF ______________)

On this _____ day of __________________, 1979, before me, a Notary Public in and for said county and state, personally appeared _________________________ and _______________________, to me personally known and known to me to be the same persons who executed the within and foregoing instrument, who, being by me duly sworn, did depose, acknowledge and say: That they reside in ________________ County, in the State of _____________________; that they are, respectively, the ________________________ and ______________________ of the Fort Wayne National Bank, the corporation described in and which executed the foregoing instrument; they they know the seal of said corporation, and that the seal affixed to said instrument is the seal of said corporation; that said instrument was signed and sealed on behalf of the said corporation by authority of its Board of Directors; and they acknowledged the execution of said instrument to be the voluntary act and deed of said corporation by it voluntarily executed.

____
Notary Public

My Commission Expires:
(NOTARIAL SEAL)

FIRST AMENDMENT TO LEASE AGREEMENT
AND
FIRST AMENDMENT TO LEASE GUARANTY AGREEMENT

BETWEEN

CITY OF FORT WAYNE, INDIANA

AND

HARRISON HOUSE REALTY, INC.,
as Tenant

AND

SUPER VALU STORES, INC.,
as Guarantor

AND

PYA/MONARCH FOOD SERVICES INC.

AND

CONSOLIDATED FOODS CORPORATION

Dated February 24, 1979

This instrument was drafted by
Dorsey, Windhorst, Hannaford,
Whitney & Halladay
2300 First National Bank Building
Minneapolis, Minnesota 55402

THIS FIRST AMENDMENT TO LEASE AGREEMENT AND FIRST AMENDMENT TO LEASE GUARANTY AGREEMENT, Dated as of February 24, 1979, by and between the CITY OF FORT WAYNE, INDIANA (the "City"), HARRISON HOUSE REALTY, INC., a Minnesota corporation (the "Lessee"), SUPER VALU STORES, INC., a Delaware corporation (the "Guarantor"), PYA/MONARCH FOOD SERVICES INC., a Delaware corporation ("Monarch") and CONSOLIDATED FOODS CORPORATION, a Maryland corporation ("Consolidated"), WITNESSETH:

ARTICLE 1
Recitals and Representations

Section 1.01. The City is authorized by Sections 18-6-4.5-1 to 18-6-4.5-30, inclusive, of the Indiana Code (the "Act"), to acquire, construct and improve any land, facilities and equipment thereon, including facilities for the carrying on of commercial or business activities, and to lease the same as a project to users for the purposes set forth in the Act.

Section 1.02. Pursuant to and in accordance with that authorization, the City has heretofore provided for acquisition of certain land, buildings and equipment and other items of personal property, and leased the same to the Lessee by a Lease Agreement dated as of February 1, 1974 (the "Lease"). Pursuant to a Lease Guaranty Amendment dated as of February 1, 1974 (the "Guaranty") between the City and the Guarantor, the Guarantor has guaranteed the obligations of the Lessee under the Lease.

Section 1.03. The Lessee represents to and covenants and agrees with the City that the Lessee is not now in default under the Lease, and reaffirms all of the representations contained in Section 2.2 of the Lease. The Guarantor represents to and covenants and agrees with the City that the Guarantor is not now in default under the Guaranty.

Section 1.04. Section 9.1 of the Lease provides that the Lessee may assign the Lease and sublease the Project in whole or in part, subject to certain specified conditions, including a condition that no assignment or sublease shall relieve the Lessee from primary liability for all rents and other payments due and for the performance of all other obligations required under the Lease.

Section 1.05. The Lessee has assigned its entire interest in the Lease to Monarch by an Assignment of Lease Agreement dated as of February 24, 1979, a copy of which is attached hereto as Exhibit A. The Guarantor has assigned its entire interest in the Guaranty to Consolidated by an Assignment of Lease Guaranty Agreement dated as of February 24, 1979, a copy of which is attached hereto as Exhibit B. Monarch and the Lessee now propose that the Lease be amended to relieve Harrison House Realty, Inc. from all liability on the Lease, and the Guarantor

and Consolidated now propose that the Guaranty be amended to relieve Super Valu Stores, Inc. from all liability on the Guaranty, after execution of this First Amendment to Lease Agreement and First Amendment to Lease Guaranty Agreement (the "First Amendment").

Section 1.06. Section 12.9 of the Lease provides that the Lease may not be effectively amended without the written consent of the Fort Wayne National Bank, as Trustee under the Mortgage and Indenture of Trust from the City dated as of February 1, 1974. The Guaranty likewise provides that it may not be amended without the prior written consent of the Trustee. Section 1302 of the Mortgage and Indenture of Trust provides that, with certain specified exceptions, neither the City nor the Trustee shall consent to an amendment of the Lease or Guaranty without the written approval or consent of the holders of at least two-thirds in aggregate principal amount of the Bonds outstanding under the Mortgage and Indenture of Trust.

Section 1.07. The holders of at least two-thirds in aggregate principal amount of the Bonds have consented to this First Amendment, and the Trustee has given its written consent in the form attached hereto as Exhibit C.

ARTICLE 2
Amendment of Lease

Section 2.01. Pursuant to the authorization outlined above, and in accordance with the relevant provisions of the Lease, the Lease is hereby amended by adding thereto a new Section 9.1A as follows:

"Section 9.1A. Assignment to PYA/Monarch Food Services Inc. Notwithstanding the limitations contained in Section 9.1 hereof or any other provision of this Agreement, the Lessee may, on or before April 1, 1979, assign its entire interest in this Agreement to PYA/Monarch Food Services Inc., a Delaware corporation, and upon filing a copy of such assignment with the City and Trustee the Lessee shall be relieved of all further liability under this Agreement, provided that by such assignment PYA/Monarch Food Services Inc. expressly assumes all obligations of the Lessee under this Agreement as fully and completely as though expressly named and designated as Lessee therein."

Section 2.02. Pursuant to the authorizations outlined above, and in accordance with the relevant provisions of the Guaranty, the Guaranty is hereby amended by adding thereto a new paragraph as follows:

"Assignment to Consolidated Foods Corporation. Notwithstanding any other provision of this Lease Guaranty Agreement,

the Guarantor may, on or before April 1, 1979, assign its entire interest in this Lease Guaranty Agreement to Consolidated Foods Corporation, a Maryland corporation, and upon filing a copy of such assignment with the Issuer and Trustee, the Guarantor shall be relieved of all further liability under this Lease Guaranty Agreement, provided that by such assignment Consolidated Foods Corporation expressly assumes all obligations of the Guarantor under this Lease Guaranty Agreement as fully and completely as though expressly named and designated as Guarantor therein."

Section 2.03. The provisions of any other document to the contrary notwithstanding, it is expressly agreed by the parties hereto that Monarch has expressly assumed all obligations of the Lessee under the Lease as fully and completely as though expressly named and designated as Lessee therein, and that Harrison House Realty, Inc. is relieved of all further liability under the Lease, and that Consolidated has expressly assumed all obligations of the Guarantor under the Guaranty as fully and completely as though expressly named and designated as Guarantor therein, and that Super Valu Stores, Inc. is relieved from all further liability under the Guaranty.

IN WITNESS WHEREOF, The City, the Lessee, the Guarantor, Monarch and Consolidated have caused this First Amendment to Lease Agreement and First Amendment to Lease Guaranty Agreement to be executed in their respective corporate names and their respective corporate seals to be hereunto affixed and attested by their authorized officers, all as of the date above written.

CITY OF FORT WAYNE, INDIANA

By ____________________________
Mayor

(SEAL)

Attest ____________________________
City Clerk

HARRISON HOUSE REALTY, INC.

By ____________________________
Its ____________________________

(SEAL)

Attest ____________________________
Its ____________________________

PYA/MONARCH FOOD SERVICES INC.

By ______________________________
Its ______________________________

Attest ______________________________
(SEAL) Its ______________________________

SUPER VALU STORES, INC.

By ______________________________
Its ______________________________

Attest ______________________________
(SEAL) Its ______________________________

CONSOLIDATED FOODS CORPORATION

By ______________________________
Its ______________________________

Attest ______________________________
(SEAL) Its ______________________________

Pursuant to Section 12.9 of that certain Lease Agreement, dated as of February 1, 1974, between the City of Fort Wayne, Indiana (the "City") and Harrison House Realty, Inc., and pursuant to that certain Lease Guaranty Agreement, dated as of February 1, 1974, between the City and Super Valu Stores, Inc., the holders of not less than two-thirds in aggregate principal amount of the Industrial Development Revenue Bonds (Super Valu Project), Series 1974 of the City issued pursuant to that certain Mortgage and Indenture of Trust, dated as of February 1, 1974 (the "Indenture"), between the City and the undersigned as Trustee having given their consent to the execution and delivery of the foregoing First Amendment to Lease Agreement and First Amendment to Lease Guaranty Agreement (the "Amendments") pursuant to Section 1302 of the Indenture, the undersigned as Trustee hereby consents to the execution of the Amendments.

FORT WAYNE NATIONAL BANK, as Trustee

By ______________________________
Its ______________________________

By ______________________________
(SEAL) Its ______________________________

STATE OF ______________)
) SS
COUNTY OF ______________)

On this _____ day of __________________, 1979, before me, a Notary Public in and for said county and state, personally appeared __________________________ and __________________________, to me personally known and known to me to be the same persons who executed the within and foregoing instrument, who, being by me duly sworn, did depose, acknowledge and say: That they reside in Fort Wayne, Indiana; that they are respectively the Mayor and City Clerk of the City of Fort Wayne, Indiana, the governmental subdivision described in and which executed the foregoing instrument; that they know the seal of said City, and that the seal affixed to said instrument is the seal of said City; that said instrument was signed and sealed on behalf of said City by authority of its governing body; and they acknowledge the execution of said instrument to be the voluntary act and deed of said City by it voluntarily executed.

____
Notary Public

My Commission Expires:
(NOTARIAL SEAL)

STATE OF ______________)
) SS
COUNTY OF ______________)

On this _____ day of __________________, 1979, before me, a Notary Public in and for said county and state, personally appeared __________________________ and __________________________, to me personally known and known to me to be the same persons who executed the within and foregoing instrument, who, being by me duly sworn, did depose, acknowledge and say: That they reside in ________________ County, in the State of ____________________; they they are, respectively, the __________________________ and ______________________ of Harrison House Realty, Inc., the corporation described in and which executed the foregoing instrument; that they know the seal of said corporation, and that the seal affixed to said instrument is the seal of said corporation; that said instrument was signed and sealed on behalf of the said corporation by authority of its Board of Directors; and they acknowledged the execution of said instrument to be the voluntary act and deed of said corporation by it voluntarily executed.

____
Notary Public

My Commission Expires:
(NOTARIAL SEAL)

STATE OF ________________)
) SS
COUNTY OF ________________)

On this _____ day of ________________, 1979, before me, a Notary Public in and for said county and state, personally appeared ________________________ and ______________________, to me personally known and known to me to be the same persons who executed the within and foregoing instrument, who, being by me duly sworn, did depose, acknowledge and say: That they reside in ________________ County, in the State of ____________________; they they are, respectively, the ________________________ and ______________________ of PYA/Monarch Food Services Inc., the corporation described in and which executed the foregoing instrument; that they know the seal of said corporation, and that the seal affixed to said instrument is the seal of said corporation; that said instrument was signed and sealed on behalf of the said corporation by authority of its Board of Directors; and they acknowledged the execution of said instrument to be the voluntary act and deed of said corporation by it voluntarily executed.

____
Notary Public

My Commission Expires:
(NOTARIAL SEAL)

STATE OF ________________)
) SS
COUNTY OF ________________)

On this _____ day of ____________________, 1979, before me, a Notary Public in and for said county and state, personally appeared ________________________ and ______________________, to me personally known and krown to me to be the same persons who executed the within and foregoing instrument, who, being by me duly sworn, did depose, acknowledge and say: That they reside in ________________ County, in the State of ____________________; that they are, respectively, the ________________________ and ______________________ of Super Valu Stores, Inc., the corporation described in and which executed the foregoing instrument; they they know the seal of said corporation, and that the seal affixed to said instrument is the seal of said corporation; that said instrument was signed and sealed on behalf of the said corporation by authority of its Board of Directors; and they acknowledged the execution of said instrument to be the voluntary act and deed of said corporation by it voluntarily executed.

____
Notary Public

My Commission Expires:
(NOTARIAL SEAL)

STATE OF ________________)
) SS
COUNTY OF ________________)

On this _____ day of ________________, 1979, before me, a Notary Public in and for said county and state, personally appeared ________________________ and ____________________, to me personally known and known to me to be the same persons who executed the within and foregoing instrument, who, being by me duly sworn, did depose, acknowledge and say: That they reside in ________________ County, in the State of ____________________; they they are, respectively, the ________________________ and ______________________ of Consolidated Foods Corporation, the corporation described in and which executed the foregoing instrument; that they know the seal of said corporation, and that the seal affixed to said instrument is the seal of said corporation; that said instrument was signed and sealed on behalf of the said corporation by authority of its Board of Directors; and they acknowledged the execution of said instrument to be the voluntary act and deed of said corporation by it voluntarily executed.

____
Notary Public

My Commission Expires:
(NOTARIAL SEAL)

STATE OF ________________)
) SS
COUNTY OF ________________)

On this _____ day of ________________, 1979, before me, a Notary Public in and for said county and state, personally appeared ________________________ and ____________________, to me personally known and known to me to be the same persons who executed the within and foregoing instrument, who, being by me duly sworn, did depose, acknowledge and say: That they reside in ________________ County, in the State of ____________________; that they are, respectively, the ________________________ and ______________________ of the Fort Wayne National Bank, the corporation described in and which executed the foregoing instrument; they they know the seal of said corporation, and that the seal affixed to said instrument is the seal of said corporation; that said instrument was signed and sealed on behalf of the said corporation by authority of its Board of Directors; and they acknowledged the execution of said instrument to be the voluntary act and deed of said corporation by it voluntarily executed.

____
Notary Public

My Commission Expires:
(NOTARIAL SEAL)

FIRST AMENDMENT TO LEASE AGREEMENT
AND
FIRST AMENDMENT TO LEASE GUARANTY AGREEMENT

BETWEEN

CITY OF FORT WAYNE, INDIANA

AND

HARRISON HOUSE REALTY, INC.,
as Tenant

AND

SUPER VALU STORES, INC.,
as Guarantor

AND

PYA/MONARCH FOOD SERVICES INC.

AND

CONSOLIDATED FOODS CORPORATION

Dated February 24, 1979

This instrument was drafted by
Dorsey, Windhorst, Hannaford,
Whitney & Halladay
2300 First National Bank Building
Minneapolis, Minnesota 55402

THIS FIRST AMENDMENT TO LEASE AGREEMENT AND FIRST AMENDMENT TO LEASE GUARANTY AGREEMENT, Dated as of February 24, 1979, by and between the CITY OF FORT WAYNE, INDIANA (the "City"), HARRISON HOUSE REALTY, INC., a Minnesota corporation (the "Lessee"), SUPER VALU STORES, INC., a Delaware corporation (the "Guarantor"), PYA/MONARCH FOOD SERVICES INC., a Delaware corporation ("Monarch") and CONSOLIDATED FOODS CORPORATION, a Maryland corporation ("Consolidated"), WITNESSETH:

ARTICLE 1
Recitals and Representations

Section 1.01. The City is authorized by Sections 18-6-4.5-1 to 18-6-4.5-30, inclusive, of the Indiana Code (the "Act"), to acquire, construct and improve any land, facilities and equipment thereon, including facilities for the carrying on of commercial or business activities, and to lease the same as a project to users for the purposes set forth in the Act.

Section 1.02. Pursuant to and in accordance with that authorization, the City has heretofore provided for acquisition of certain land, buildings and equipment and other items of personal property, and leased the same to the Lessee by a Lease Agreement dated as of February 1, 1974 (the "Lease"). Pursuant to a Lease Guaranty Amendment dated as of February 1, 1974 (the "Guaranty") between the City and the Guarantor, the Guarantor has guaranteed the obligations of the Lessee under the Lease.

Section 1.03. The Lessee represents to and covenants and agrees with the City that the Lessee is not now in default under the Lease, and reaffirms all of the representations contained in Section 2.2 of the Lease. The Guarantor represents to and covenants and agrees with the City that the Guarantor is not now in default under the Guaranty.

Section 1.04. Section 9.1 of the Lease provides that the Lessee may assign the Lease and sublease the Project in whole or in part, subject to certain specified conditions, including a condition that no assignment or sublease shall relieve the Lessee from primary liability for all rents and other payments due and for the performance of all other obligations required under the Lease.

Section 1.05. The Lessee has assigned its entire interest in the Lease to Monarch by an Assignment of Lease Agreement dated as of February 24, 1979, a copy of which is attached hereto as Exhibit A. The Guarantor has assigned its entire interest in the Guaranty to Consolidated by an Assignment of Lease Guaranty Agreement dated as of February 24, 1979, a copy of which is attached hereto as Exhibit B. Monarch and the Lessee now propose that the Lease be amended to relieve Harrison House Realty, Inc. from all liability on the Lease, and the Guarantor

and Consolidated now propose that the Guaranty be amended to relieve Super Valu Stores, Inc. from all liability on the Guaranty, after execution of this First Amendment to Lease Agreement and First Amendment to Lease Guaranty Agreement (the "First Amendment").

Section 1.06. Section 12.9 of the Lease provides that the Lease may not be effectively amended without the written consent of the Fort Wayne National Bank, as Trustee under the Mortgage and Indenture of Trust from the City dated as of February 1, 1974. The Guaranty likewise provides that it may not be amended without the prior written consent of the Trustee. Section 1302 of the Mortgage and Indenture of Trust provides that, with certain specified exceptions, neither the City nor the Trustee shall consent to an amendment of the Lease or Guaranty without the written approval or consent of the holders of at least two-thirds in aggregate principal amount of the Bonds outstanding under the Mortgage and Indenture of Trust.

Section 1.07. The holders of at least two-thirds in aggregate principal amount of the Bonds have consented to this First Amendment, and the Trustee has given its written consent in the form attached hereto as Exhibit C.

ARTICLE 2
Amendment of Lease

Section 2.01. Pursuant to the authorization outlined above, and in accordance with the relevant provisions of the Lease, the Lease is hereby amended by adding thereto a new Section 9.1A as follows:

"Section 9.1A. Assignment to PYA/Monarch Food Services Inc. Notwithstanding the limitations contained in Section 9.1 hereof or any other provision of this Agreement, the Lessee may, on or before April 1, 1979, assign its entire interest in this Agreement to PYA/Monarch Food Services Inc., a Delaware corporation, and upon filing a copy of such assignment with the City and Trustee the Lessee shall be relieved of all further liability under this Agreement, provided that by such assignment PYA/Monarch Food Services Inc. expressly assumes all obligations of the Lessee under this Agreement as fully and completely as though expressly named and designated as Lessee therein."

Section 2.02. Pursuant to the authorizations outlined above, and in accordance with the relevant provisions of the Guaranty, the Guaranty is hereby amended by adding thereto a new paragraph as follows:

"Assignment to Consolidated Foods Corporation. Notwithstanding any other provision of this Lease Guaranty Agreement,

the Guarantor may, on or before April 1, 1979, assign its entire interest in this Lease Guaranty Agreement to Consolidated Foods Corporation, a Maryland corporation, and upon filing a copy of such assignment with the Issuer and Trustee, the Guarantor shall be relieved of all further liability under this Lease Guaranty Agreement, provided that by such assignment Consolidated Foods Corporation expressly assumes all obligations of the Guarantor under this Lease Guaranty Agreement as fully and completely as though expressly named and designated as Guarantor therein."

Section 2.03. The provisions of any other document to the contrary notwithstanding, it is expressly agreed by the parties hereto that Monarch has expressly assumed all obligations of the Lessee under the Lease as fully and completely as though expressly named and designated as Lessee therein, and that Harrison House Realty, Inc. is relieved of all further liability under the Lease, and that Consolidated has expressly assumed all obligations of the Guarantor under the Guaranty as fully and completely as though expressly named and designated as Guarantor therein, and that Super Valu Stores, Inc. is relieved from all further liability under the Guaranty.

IN WITNESS WHEREOF, The City, the Lessee, the Guarantor, Monarch and Consolidated have caused this First Amendment to Lease Agreement and First Amendment to Lease Guaranty Agreement to be executed in their respective corporate names and their respective corporate seals to be hereunto affixed and attested by their authorized officers, all as of the date above written.

CITY OF FORT WAYNE, INDIANA

By____________________________
Mayor

(SEAL)

Attest__________________________
City Clerk

HARRISON HOUSE REALTY, INC.

By____________________________
Its__________________________

(SEAL)

Attest__________________________
Its__________________________

PYA/MONARCH FOOD SERVICES INC.

By ______________________________
Its ______________________________

Attest ______________________________
Its ______________________________

(SEAL)

SUPER VALU STORES, INC.

By ______________________________
Its ______________________________

Attest ______________________________
Its ______________________________

(SEAL)

CONSOLIDATED FOODS CORPORATION

By ______________________________
Its ______________________________

Attest ______________________________
Its ______________________________

(SEAL)

Pursuant to Section 12.9 of that certain Lease Agreement, dated as of February 1, 1974, between the City of Fort Wayne, Indiana (the "City") and Harrison House Realty, Inc., and pursuant to that certain Lease Guaranty Agreement, dated as of February 1, 1974, between the City and Super Valu Stores, Inc., the holders of not less than two-thirds in aggregate principal amount of the Industrial Development Revenue Bonds (Super Valu Project), Series 1974 of the City issued pursuant to that certain Mortgage and Indenture of Trust, dated as of February 1, 1974 (the "Indenture"), between the City and the undersigned as Trustee having given their consent to the execution and delivery of the foregoing First Amendment to Lease Agreement and First Amendment to Lease Guaranty Agreement (the "Amendments") pursuant to Section 1302 of the Indenture, the undersigned as Trustee hereby consents to the execution of the Amendments.

FORT WAYNE NATIONAL BANK, as Trustee

By ______________________________
Its ______________________________

By ______________________________
Its ______________________________

(SEAL)

STATE OF ______________)
) SS
COUNTY OF _____________)

On this _____ day of __________________, 1979, before me, a Notary Public in and for said county and state, personally appeared __________________________ and ______________________, to me personally known and known to me to be the same persons who executed the within and foregoing instrument, who, being by me duly sworn, did depose, acknowledge and say: That they reside in Fort Wayne, Indiana; that they are respectively the Mayor and City Clerk of the City of Fort Wayne, Indiana, the governmental subdivision described in and which executed the foregoing instrument; that they know the seal of said City, and that the seal affixed to said instrument is the seal of said City; that said instrument was signed and sealed on behalf of said City by authority of its governing body; and they acknowledge the execution of said instrument to be the voluntary act and deed of said City by it voluntarily executed.

____
Notary Public

My Commission Expires:
(NOTARIAL SEAL)

STATE OF ________________)
) SS
COUNTY OF _______________)

On this _____ day of ___________________, 1979, before me, a Notary Public in and for said county and state, personally appeared __________________________ and ______________________, to me personally known and known to me to be the same persons who executed the within and foregoing instrument, who, being by me duly sworn, did depose, acknowledge and say: That they reside in _________________ County, in the State of ______________________; they they are, respectively, the _________________________ and _______________________ of Harrison House Realty, Inc., the corporation described in and which executed the foregoing instrument; that they know the seal of said corporation, and that the seal affixed to said instrument is the seal of said corporation; that said instrument was signed and sealed on behalf of the said corporation by authority of its Board of Directors; and they acknowledged the execution of said instrument to be the voluntary act and deed of said corporation by it voluntarily executed.

____
Notary Public

My Commission Expires:
(NOTARIAL SEAL)

STATE OF ________________)
) SS
COUNTY OF ________________)

On this _____ day of ___________________, 1979, before me, a Notary Public in and for said county and state, personally appeared __________________________ and ______________________, to me personally known and known to me to be the same persons who executed the within and foregoing instrument, who, being by me duly sworn, did depose, acknowledge and say: That they reside in ________________ County, in the State of ____________________; they they are, respectively, the _________________________ and ______________________ of PYA/Monarch Food Services Inc., the corporation described in and which executed the foregoing instrument; that they know the seal of said corporation, and that the seal affixed to said instrument is the seal of said corporation; that said instrument was signed and sealed on behalf of the said corporation by authority of its Board of Directors; and they acknowledged the execution of said instrument to be the voluntary act and deed of said corporation by it voluntarily executed.

____
Notary Public

My Commission Expires:
(NOTARIAL SEAL)

STATE OF ________________)
) SS
COUNTY OF ________________)

On this _____ day of ___________________, 1979, before me, a Notary Public in and for said county and state, personally appeared __________________________ and ______________________, to me personally known and known to me to be the same persons who executed the within and foregoing instrument, who, being by me duly sworn, did depose, acknowledge and say: That they reside in ________________ County, in the State of ____________________; that they are, respectively, the _________________________ and ______________________ of Super Valu Stores, Inc., the corporation described in and which executed the foregoing instrument; they they know the seal of said corporation, and that the seal affixed to said instrument is the seal of said corporation; that said instrument was signed and sealed on behalf of the said corporation by authority of its Board of Directors; and they acknowledged the execution of said instrument to be the voluntary act and deed of said corporation by it voluntarily executed.

____
Notary Public

My Commission Expires:
(NOTARIAL SEAL)

STATE OF ________________)
) SS
COUNTY OF ________________)

On this _____ day of __________________, 1979, before me, a Notary Public in and for said county and state, personally appeared __________________________ and ________________________, to me personally known and known to me to be the same persons who executed the within and foregoing instrument, who, being by me duly sworn, did depose, acknowledge and say: That they reside in _________________ County, in the State of ______________________; they they are, respectively, the __________________________ and ______________________ of Consolidated Foods Corporation, the corporation described in and which executed the foregoing instrument; that they know the seal of said corporation, and that the seal affixed to said instrument is the seal of said corporation; that said instrument was signed and sealed on behalf of the said corporation by authority of its Board of Directors; and they acknowledged the execution of said instrument to be the voluntary act and deed of said corporation by it voluntarily executed.

____
Notary Public

My Commission Expires:
(NOTARIAL SEAL)

STATE OF ________________)
) SS
COUNTY OF ________________)

On this _____ day of ____________________, 1979, before me, a Notary Public in and for said county and state, personally appeared __________________________ and ________________________, to me personally known and known to me to be the same persons who executed the within and foregoing instrument, who, being by me duly sworn, did depose, acknowledge and say: That they reside in _________________ County, in the State of _______________________; that they are, respectively, the ___________________________ and ______________________ of the Fort Wayne National Bank, the corporation described in and which executed the foregoing instrument; they they know the seal of said corporation, and that the seal affixed to said instrument is the seal of said corporation; that said instrument was signed and sealed on behalf of the said corporation by authority of its Board of Directors; and they acknowledged the execution of said instrument to be the voluntary act and deed of said corporation by it voluntarily executed.

____
Notary Public

My Commission Expires:
(NOTARIAL SEAL)

ASSIGNMENT OF LEASE GUARANTY AGREEMENT

KNOW ALL MEN BY THESE PRESENTS, That Super Valu Stores, Inc., a Delaware corporation ("Super Valu"), in consideration of the sum of One Dollar to it in hand paid by Consolidated Foods Corporation, a Maryland corporation ("Consolidated"), hereby assigns, transfers and sets over unto Consolidated and its successors and assigns, effective as of February 24, 1979, all of the right, title and interest of Super Valu in and to, and obligations of Super Valu under, that certain Lease Guaranty Agreement dated as of February 1, 1974 between Super Valu and the City of Fort Wayne, Indiana, a municipal corporation organized under the Constitution and laws of the State of Indiana.

This Assignment is made pursuant to and subject to all of the terms and conditions of that certain Mortgage and Indenture of Trust dated as of February 1, 1974 between said City of Fort Wayne, Indiana and Fort Wayne National Bank, as Trustee, the terms of which are incorporated herein by this reference as fully as if the same were set forth at length herein.

IN WITNESS WHEREOF, Super Valu has caused these presents to be duly executed as of the 24th day of February, 1979.

SUPER VALU STORES, INC.

In the Presence of:

______________________ By______________________

Its______________________

____

(Seal)

STATE OF ____________)
)SS
COUNTY OF ___________)

On this _____ day of ________________, 1979, before me, a Notary Public within and for said County, personally appeared ______________________, to me personally known, who, being by me duly sworn, did say that he is the ______________________ of Super Valu Stores, Inc., and that the seal affixed to said instrument is the corporate seal of said corporation, and that said instrument was signed and sealed in behalf of said corporation by authority of its Board of Directors and said ______________________ acknowledged said instrument to be the free act and deed of said corporation.

(Seal)

____
Notary Public

The above Assignment of Lease Guaranty Agreement is hereby accepted as of the 24th day of February, 1979.

CONSOLIDATED FOODS CORPORATION

In the Presence of:

______________________________ By______________________________

Its______________________________

____

(Seal)

STATE OF ____________)
) SS
COUNTY OF ____________)

On this _____ day of ________________, 1979, before me, a Notary Public within and for said County, personally appeared ________________________________, to me personally known, who, being by me duly sworn, did say that he is the ________________________ of Consolidated Foods Corporation, and that the seal affixed to said instrument is the corporate seal of said corporation, and that said instrument was signed and sealed in behalf of said corporation by authority of its Board of Directors and said ________________________________ acknowledged said instrument to be the free act and deed of said corporation.

(Seal)

____
Notary Public

This instrument was drafted by
Dorsey, Windhorst, Hannaford,
Whitney & Halladay
2300 First National Bank Building
Minneapolis, Minnesota 55402

ASSIGNMENT OF LEASE GUARANTY AGREEMENT

KNOW ALL MEN BY THESE PRESENTS, That Super Valu Stores, Inc., a Delaware corporation ("Super Valu"), in consideration of the sum of One Dollar to it in hand paid by Consolidated Foods Corporation, a Maryland corporation ("Consolidated"), hereby assigns, transfers and sets over unto Consolidated and its successors and assigns, effective as of February 24, 1979, all of the right, title and interest of Super Valu in and to, and obligations of Super Valu under, that certain Lease Guaranty Agreement dated as of February 1, 1974 between Super Valu and the City of Fort Wayne, Indiana, a municipal corporation organized under the Constitution and laws of the State of Indiana.

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IN WITNESS WHEREOF, Super Valu has caused these presents to be duly executed as of the 24th day of February, 1979.

SUPER VALU STORES, INC.

In the Presence of:

_________________________ By_________________________

Its_________________________

____

(Seal)

STATE OF ____________)
)SS
COUNTY OF ____________)

On this _____ day of ____________________, 1979, before me, a Notary Public within and for said County, personally appeared ____________________________________, to me personally known, who, being by me duly sworn, did say that he is the ________________________ of Super Valu Stores, Inc., and that the seal affixed to said instrument is the corporate seal of said corporation, and that said instrument was signed and sealed in behalf of said corporation by authority of its Board of Directors and said ________________________________ acknowledged said instrument to be the free act and deed of said corporation.

(Seal)

____
Notary Public

The above Assignment of Lease Guaranty Agreement is hereby accepted as of the 24th day of February, 1979.

CONSOLIDATED FOODS CORPORATION

In the Presence of:

______________________ By______________________

Its______________________

____

(Seal)

STATE OF ____________)
) SS
COUNTY OF ___________)

On this _____ day of ______________, 1979, before me, a Notary Public within and for said County, personally appeared ______________________, to me personally known, who, being by me duly sworn, did say that he is the ______________________ of Consolidated Foods Corporation, and that the seal affixed to said instrument is the corporate seal of said corporation, and that said instrument was signed and sealed in behalf of said corporation by authority of its Board of Directors and said ______________________ acknowledged said instrument to be the free act and deed of said corporation.

(Seal)

____
Notary Public

This instrument was drafted by
Dorsey, Windhorst, Hannaford,
Whitney & Halladay
2300 First National Bank Building
Minneapolis, Minnesota 55402

ASSIGNMENT OF LEASE GUARANTY AGREEMENT

KNOW ALL MEN BY THESE PRESENTS, That Super Valu Stores, Inc., a Delaware corporation ("Super Valu"), in consideration of the sum of One Dollar to it in hand paid by Consolidated Foods Corporation, a Maryland corporation ("Consolidated"), hereby assigns, transfers and sets over unto Consolidated and its successors and assigns, effective as of February 24, 1979, all of the right, title and interest of Super Valu in and to, and obligations of Super Valu under, that certain Lease Guaranty Agreement dated as of February 1, 1974 between Super Valu and the City of Fort Wayne, Indiana, a municipal corporation organized under the Constitution and laws of the State of Indiana.

This Assignment is made pursuant to and subject to all of the terms and conditions of that certain Mortgage and Indenture of Trust dated as of February 1, 1974 between said City of Fort Wayne, Indiana and Fort Wayne National Bank, as Trustee, the terms of which are incorporated herein by this reference as fully as if the same were set forth at length herein.

IN WITNESS WHEREOF, Super Valu has caused these presents to be duly executed as of the 24th day of February, 1979.

SUPER VALU STORES, INC.

In the Presence of:

______________________________ By______________________________

Its______________________________

____

(Seal)

STATE OF ____________)
)SS
COUNTY OF ____________)

On this _____ day of ____________________, 1979, before me, a Notary Public within and for said County, personally appeared ____, to me personally known, who, being by me duly sworn, did say that he is the __________________________ of Super Valu Stores, Inc., and that the seal affixed to said instrument is the corporate seal of said corporation, and that said instrument was signed and sealed in behalf of said corporation by authority of its Board of Directors and said ____________________________________ acknowledged said instrument to be the free act and deed of said corporation.

(Seal)

____
Notary Public

The above Assignment of Lease Guaranty Agreement is hereby accepted as of the 24th day of February, 1979.

CONSOLIDATED FOODS CORPORATION

In the Presence of:

_______________________ By_______________________

Its_______________________

____

(Seal)

STATE OF ___________)
) SS
COUNTY OF ___________)

On this _____ day of _______________, 1979, before me, a Notary Public within and for said County, personally appeared _______________________, to me personally known, who, being by me duly sworn, did say that he is the _______________________ of Consolidated Foods Corporation, and that the seal affixed to said instrument is the corporate seal of said corporation, and that said instrument was signed and sealed in behalf of said corporation by authority of its Board of Directors and said _______________________ acknowledged said instrument to be the free act and deed of said corporation.

(Seal)

____
Notary Public

This instrument was drafted by
Dorsey, Windhorst, Hannaford,
Whitney & Halladay
2300 First National Bank Building
Minneapolis, Minnesota 55402

To Our Shareholders

Well, we made it. At the beginning of the year we knew the third quarter would be most challenging to show increases because third quarter sales last year were up 25 per cent and earnings were up 57 per cent.

I am pleased to report that for the 12 weeks ended December 2, 1978 sales and earnings increases met our expectations. All segments of the company contributed to record sales of $730,785,000, an increase of 14 per cent over the $640,570,000 reported for the comparable quarter a year ago. The third quarter sales comparison with last year is affected by the sale of the Harrison House institutional food business last March. Harrison House had third quarter sales a year ago of $20 million. If these had been excluded, the increase for the comparable quarter this year would have been 18 per cent. Year-to-date sales were $2,289,125,000, up more than 19 per cent.

Earnings for the quarter were $9,522,000, an increase of 15.7 per cent over the $8,227,000 a year ago. Earnings for the first three quarters total $26,421,000, 19 per cent above the $22,193,000 we reported last year at this time.

Earnings per share for the third quarter were 53 cents, compared with 46 cents a year ago, which is a 15.2 per cent increase. This brings year-to-date earnings per share to $1.47. We expect to meet estimates made by analysts of $2 per share earnings for the fiscal year ending February 24. Also, we expect to be able to report total sales of approximately $3 billion for the year.

ShopKo and County Seat, our retail non-food operations, both report strong pre-holiday sales. Ten additional leisure wear stores were opened during the quarter, bringing year-to-date openings to 27, for a total of 220 stores in operation. Three more ShopKo stores were opened during the quarter, for a total of 24. Expansion programs for both County Seat and ShopKo have been concluded for the year.

■ Effective February 25, 1978 the Company disposed of the operations of its Harrison House food service division by selling three of its locations for cash totaling $9,358,000 net of liabilities retained and discontinuing operations of the fourth one. Harrison House sales for the third quarter and first three quarters of fiscal 1978 were $19,987,000 and $66,126,000 representing about 3.1% and 3.4% of Super Valu sales, respectively. The results of operations for Harrison House for the three quarters and the third quarter were not significant.

■ The third quarter and first three quarter balances of fiscal 1978 have been restated to reflect a change to the last-in, first-out (LIFO) method of determining cost for additional wholesale food inventory categories. As a result of this change, net earnings for the first three quarters of fiscal 1978 were reduced by $377,000 ($.02 per share). The earnings effect in the third quarter of 1978 was not significant. Certain balances of fiscal 1978 have also been reclassified to conform with classifications of fiscal 1979 balances. Such reclassifications had no effect on net earnings or stockholders' equity.

Super Valu Third Quarter Report

12 and 40 Weeks Ended Dec. 2, 1978

Super Valu Stores, Inc.
101 Jefferson Avenue South
Hopkins, Minnesota 55343
(612) 932-4444

FIRST CLASS

Summary of Earnings

Super Valu Stores, Inc. and Consolidated Subsidiaries

Net Sales

Costs and Expenses:
- Cost of sales
- Selling and administrative expenses
- Interest and other debt expense

Earnings Before Income Taxes

Provision For Income Taxes:
- Currently payable (includes investment tax credit of $760,000 for 1978 and $160,000 for 1977)
- Deferred

Net Earnings Of Super Valu Stores, Inc. And Consolidated Subsidiaries

Net Earnings Of Unconsolidated Finance Subsidiary

Net Earnings

Weighted Average Number Of Common Shares Outstanding

NET EARNINGS PER COMMON SHARE

DIVIDENDS DECLARED PER COMMON SHARE

All data subject to year-end audit.

Dec. 2, 1978	Dec. 3, 1977 (Restated)
$ 640,000	$ 281,000
37,279,000	39,034,000
206,221,000	188,070,000
7,832,000	9,921,000
251,972,000	237,306,000
7,272,000	7,261,000
2,188,000	11,086,000
2,836,000	2,555,000
128,339,000	78,019,000
46,286,000	59,551,000
$438,893,000	$395,778,000
$134,394,000	$125,682,000
30,990,000	23,603,000
32,517,000	30,458,000
197,901,000	179,743,000
43,493,000	29,019,000
51,487,000	67,014,000
1,072,000	1,611,000
144,940,000	118,391,000
$438,893,000	$395,778,000

See notes to financial statements.

Notes to Financial Statements

■ The company uses the last-in, first-out method (LIFO) for determining cost for a major portion of wholesale food inventories (61.5% for fiscal 1979 and 57.6% for fiscal 1978 on the total current cost of consolidated inventories). If the first-in, first-out method (FIFO) had been used to determine cost of inventories for which the LIFO method is used, the Company's inventories would have been $20,148,000 higher at December 2, 1978 and $15,400,000 higher at December 3, 1977.

■ The Board of Directors at their June 27, 1978 meeting also approved a 2-for-1 Common Stock split which was effected in the form of a 100% stock dividend to stockholders of record on July 11, 1978. All share and per share data has been adjusted to give effect to the common stock split.

■ Beginning the second quarter of the prior year the Company purchased the business of Charley Brothers Company, a wholesale grocery firm headquartered near Pittsburgh. The results of Charley Brothers Company operations since the effective date of purchase, June 18, 1977, are included in the operating results. The pro-forma first three quarters comparison that would result if the operations of Charley Brothers Company had been included in the first quarter of fiscal 1978 is presented below.

	Three Quarters (40 Weeks Ended)	
	December 2, 1978	December 3, 1977 (Restated)
Net sales	$2,289,125,000	$1,999,457,000
Net earnings	$ 26,421,000	$ 23,638,000
Net earnings per share	$1.47	$1.32

Our wholesale food operations are experiencing another strong year with a 17 per cent increase in sales for the third quarter.

You will be interested to know that your board of directors at its December meeting elected Michael W. Wright, who has been the executive vice president and director, to be president, chief operating officer and director of Super Valu. I believe this promotion greatly strengthens our company and assures continuity of direction and leadership. Mike has shown that he is a most capable executive, and he has contributed in many ways to our progress. When you meet Mike at our annual meeting in June, you will readily understand why we elected him president.

Michael W. Wright

In conclusion, we are in the midst of exciting growth and activity, and we have moved into the fourth quarter with great expectations for continued progress.

Sincerely,

Jack J. Crocker
Chairman and Chief Executive Officer

Super Valu Stores, Inc. and Consolidated Subsidiaries

	Three Quarters (40 Weeks) Ended Dec. 2, 1978	Dec. 3, 1977 (Restated)	% Increase (Decrease)
Net Sales	**$2,289,125,000**	$1,921,578,000	19.1
Costs and Expenses:			
Cost of sales	**2,112,877,000**	1,769,643,000	19.4
Selling and administrative expenses	**121,187,000**	104,301,000	16.2
Interest and other debt expense	**5,424,000**	5,680,000	(4.5)
	2,239,488,000	1,879,624,000	19.1
Earnings Before Income Taxes	**49,637,000**	41,954,000	18.3
Provision For Income Taxes:			
Currently payable (includes investment tax credit of $1,800,000 for 1978 and $1,000,000 for 1977)	**24,308,000**	21,352,000	
Deferred	**(397,000)**	(851,000)	
	23,911,000	20,501,000	16.6
Net Earnings Of Super Valu Stores, Inc. And Consolidated Subsidiaries	**25,726,000**	21,453,000	19.9
Net Earnings Of Unconsolidated Finance Subsidiary	**695,000**	740,000	(6.1)
Net Earnings	**$ 26,421,000**	$ 22,193,000	19.1
Weighted Average Number Of Common Shares Outstanding	**18,003,000**	17,862,000	.8
NET EARNINGS PER COMMON SHARE	**$1.47**	$1.24	18.5
DIVIDENDS DECLARED PER COMMON SHARE	**$.37¾**	$.29¾	26.9

All data subject to year-end audit.

See notes to financial statements.

Condensed Balance Sheets

Third Quarter

Super Valu Stores, Inc. and Consolidated Subsidiaries

Assets

Current Assets

Cash

Receivables, less allowance for losses of $2,292,000 in 1978 and $2,320,000 in 1977

Inventories

Other Current Assets

Total Current Assets

Other Assets and Deferred Charges

Investment in and Advances to Unconsolidated Finance Subsidiary

Deferred Income Tax Benefits

Property, Plant and Equipment, net

Leased Assets Under Capital Leases, net

Liabilities And Stockholders' Equity

Current Liabilities

Accounts Payable

Checks Outstanding, net

Other Current Liabilities

Total Current Liabilities

Long-Term Notes Payable

Obligations Under Capital Leases

Other Liabilities

Stockholders' Equity

Third Quarter (12 Weeks) Ended		
Dec. 2, 1978	Dec. 3, 1977 (Restated)	% Increase (Decrease)
$730,785,000	$640,570,000	14.1
671,490,000	589,971,000	13.8
39,956,000	32,834,000	21.7
1,512,000	1,732,000	(12.7)
712,958,000	624,537,000	14.2
17,827,000	16,033,000	11.2
9,215,000	8,613,000	
(741,000)	(554,000)	
8,474,000	8,059,000	5.1
9,353,000	7,974,000	17.3
169,000	253,000	(33.2)
$ 9,522,000	$ 8,227,000	15.7
18,031,000	17,875,000	.9
$.53	$.46	15.2
$.13½	$.10¾	25.6

See notes to financial statements.

All data subject to year-end audit.

To Our Shareholders

Well, we made it. At the beginning of the year we knew the third quarter would be most challenging to show increases because third quarter sales last year were up 25 per cent and earnings were up 57 per cent.

I am pleased to report that for the 12 weeks ended December 2, 1978 sales and earnings increases met our expectations. All segments of the company contributed to record sales of $730,785,000, an increase of 14 per cent over the $640,570,000 reported for the comparable quarter a year ago. The third quarter sales comparison with last year is affected by the sale of the Harrison House institutional food business last March. Harrison House had third quarter sales a year ago of $20 million. If these had been excluded, the increase for the comparable quarter this year would have been 18 per cent. Year-to-date sales were $2,289,125,000, up more than 19 per cent.

Earnings for the quarter were $9,522,000, an increase of 15.7 per cent over the $8,227,000 a year ago. Earnings for the first three quarters total $26,421,000, 19 per cent above the $22,193,000 we reported last year at this time.

Earnings per share for the third quarter were 53 cents, compared with 46 cents a year ago, which is a 15.2 per cent increase. This brings year-to-date earnings per share to $1.47. We expect to meet estimates made by analysts of $2 per share earnings for the fiscal year ending February 24. Also, we expect to be able to report total sales of approximately $3 billion for the year.

ShopKo and County Seat, our retail non-food operations, both report strong pre-holiday sales. Ten additional leisure wear stores were opened during the quarter, bringing year-to-date openings to 27, for a total of 220 stores in operation. Three more ShopKo stores were opened during the quarter, for a total of 24. Expansion programs for both County Seat and ShopKo have been concluded for the year.

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Super Valu Stores, Inc.
101 Jefferson Avenue South
Hopkins, Minnesota 55343
(612) 932-4444

Super Valu Third Quarter Report

12 and 40 Weeks Ended Dec. 2, 1978

FIRST CLASS

Summary of Earnings

Super Valu Stores, Inc. and Consolidated Subsidiaries

	Dec. 2, 1978	Dec. 3, 1977 (Restated)
Net Sales	$ 640,000	$ 281,000
Costs and Expenses:		
Cost of sales	37,279,000	39,034,000
Selling and administrative expenses	206,221,000	188,070,000
Interest and other debt expense	7,832,000	9,921,000
	251,972,000	237,306,000
Earnings Before Income Taxes	7,272,000	7,261,000
Provision For Income Taxes:		
Currently payable (includes investment tax credit	2,188,000	11,086,000
of $760,000 for 1978 and $160,000 for 1977)	2,836,000	2,555,000
Deferred	128,339,000	78,019,000
	46,286,000	59,551,000
Net Earnings Of Super Valu Stores, Inc. And Consolidated Subsidiaries	$438,893,000	$395,778,000
Net Earnings Of Unconsolidated Finance Subsidiary		
	$134,394,000	$125,682,000
Net Earnings	30,990,000	23,603,000
Weighted Average Number Of Common Shares Outstanding	32,517,000	30,458,000
	197,901,000	179,743,000
	43,493,000	29,019,000
NET EARNINGS PER COMMON SHARE	51,487,000	67,014,000
DIVIDENDS DECLARED PER COMMON SHARE	1,072,000	1,611,000
	144,940,000	118,391,000
	$438,893,000	$395,778,000

All data subject to year-end audit.

See notes to financial statements.

Notes to Financial Statements

■ The company uses the last-in, first-out method (LIFO) for determining cost for a major portion of wholesale food inventories (61.5% for fiscal 1979 and 57.6% for fiscal 1978 on the total current cost of consolidated inventories). If the first-in, first-out method (FIFO) had been used to determine cost of inventories for which the LIFO method is used, the Company's inventories would have been $20,148,000 higher at December 2, 1978 and $15,400,000 higher at December 3, 1977.

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■ Beginning the second quarter of the prior year the Company purchased the business of Charley Brothers Company, a wholesale grocery firm headquartered near Pittsburgh. The results of Charley Brothers Company operations since the effective date of purchase, June 18, 1977, are included in the operating results. The pro-forma first three quarters comparison that would result if the operations of Charley Brothers Company had been included in the first quarter of fiscal 1978 is presented below.

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	December 2, 1978	December 3, 1977 (Restated)
Net sales	$2,289,125,000	$1,999,457,000
Net earnings	$ 26,421,000	$ 23,638,000
Net earnings per share	$1.47	$1.32

Our wholesale food operations are experiencing another strong year with a 17 per cent increase in sales for the third quarter.

You will be interested to know that your board of directors at its December meeting elected Michael W. Wright, who has been the executive vice president and director, to be president, chief operating officer and director of Super Valu. I believe this promotion greatly strengthens our company and assures continuity of direction and leadership. Mike has shown that he is a most capable executive, and he has contributed in many ways to our progress. When you meet Mike at our annual meeting in June, you will readily understand why we elected him president.

Michael W. Wright

In conclusion, we are in the midst of exciting growth and activity, and we have moved into the fourth quarter with great expectations for continued progress.

Sincerely,

Jack J. Crocker

Jack J. Crocker
Chairman and Chief Executive Officer

Super Valu Stores, Inc. and Consolidated Subsidiaries

	Three Quarters (40 Weeks) Ended Dec. 2, 1978	Three Quarters (40 Weeks) Ended Dec. 3, 1977 (Restated)	% Increase (Decrease)
Net Sales	**$2,289,125,000**	$1,921,578,000	19.1
Costs and Expenses:			
Cost of sales	**2,112,877,000**	1,769,643,000	19.4
Selling and administrative expenses	**121,187,000**	104,301,000	16.2
Interest and other debt expense	**5,424,000**	5,680,000	(4.5)
	2,239,488,000	1,879,624,000	19.1
Earnings Before Income Taxes	**49,637,000**	41,954,000	18.3
Provision For Income Taxes:			
Currently payable (includes investment tax credit of $1,800,000 for 1978 and $1,000,000 for 1977)	**24,308,000**	21,352,000	
Deferred	**(397,000)**	(851,000)	
	23,911,000	20,501,000	16.6
Net Earnings Of Super Valu Stores, Inc. And Consolidated Subsidiaries	**25,726,000**	21,453,000	19.9
Net Earnings Of Unconsolidated Finance Subsidiary	**695,000**	740,000	(6.1)
Net Earnings	**$ 26,421,000**	$ 22,193,000	19.1
Weighted Average Number Of Common Shares Outstanding	**18,003,000**	17,862,000	.8
NET EARNINGS PER COMMON SHARE	**$1.47**	$1.24	18.5
DIVIDENDS DECLARED PER COMMON SHARE	**$.37¾**	$.29¾	26.9

All data subject to year-end audit.

See notes to financial statements.

Condensed Balance Sheets

Third Quarter

Super Valu Stores, Inc. and Consolidated Subsidiaries

Assets

Current Assets

Cash

Receivables, less allowance for losses of $2,292,000 in 1978 and $2,320,000 in 1977

Inventories

Other Current Assets

Total Current Assets

Other Assets and Deferred Charges

Investment in and Advances to Unconsolidated Finance Subsidiary

Deferred Income Tax Benefits

Property, Plant and Equipment, net

Leased Assets Under Capital Leases, net

Liabilities And Stockholders' Equity

Current Liabilities

Accounts Payable

Checks Outstanding, net

Other Current Liabilities

Total Current Liabilities

Long-Term Notes Payable

Obligations Under Capital Leases

Other Liabilities

Stockholders' Equity

Third Quarter (12 Weeks) Ended Dec. 2, 1978	Dec. 3, 1977 (Restated)	% Increase (Decrease)
$730,785,000	$640,570,000	14.1
671,490,000	589,971,000	13.8
39,956,000	32,834,000	21.7
1,512,000	1,732,000	(12.7)
712,958,000	624,537,000	14.2
17,827,000	16,033,000	11.2
9,215,000	8,613,000	
(741,000)	(554,000)	
8,474,000	8,059,000	5.1
9,353,000	7,974,000	17.3
169,000	253,000	(33.2)
$ 9,522,000	$ 8,227,000	15.7
18,031,000	17,875,000	.9
$.53	$.46	15.2
$.13½	$.10¾	25.6

See notes to financial statements.

All data subject to year-end audit.

To Our Shareholders

Our second-quarter earnings of $7,927,000 represent an increase of 19 per cent over the similar period a year ago. Earnings per share for the 12 weeks ended September 9 were 44 cents, compared with 37 cents last year. First-half earnings were $16,899,000 or 94 cents per share, compared with $13,966,000 or 78 cents a year ago, an increase of 21 per cent.

Net sales for the second quarter totaled $682,700,000, which was 15 per cent higher than the $594,700,000 reported for the comparable period last year. The year-to-date sales of $1,558,300,000 are up 22 per cent from $1,281,000,000 reported a year ago.

The second quarter sales comparison with last year is affected by the absence of Harrison House institutional food business which was sold last March. Harrison House had reported sales in the second quarter a year ago of $20 million. If these sales were excluded from the second quarter of last year, the sales increase for the current quarter would have been 19 per cent.

Each of the three components of Super Valu's business contributed to the sales and income gains for the quarter.

Both County Seat and ShopKo are experiencing an exciting fall season. County Seat, the leisure wear apparel division, has opened 17 stores in the first half of the fiscal year and will have 15 additional units in operation in the next six months for a total of 225 stores in 34 states. ShopKo recently opened its second department store in LaCrosse, Wisconsin, and similar full-service stores are opening this fall in Beloit and Eau Claire. These will bring the number of ShopKo units to 24 at year end.

At the annual meeting in June, a shareholder asked if we had considered electing a woman to the board of directors. My answer to her was that we must continue to be sensitive to that possibility, but we must also keep in mind that we choose directors who will be of the greatest help to the company.

	First Half (28 Weeks) Ended	
	September 9, 1978	September 10, 1977 (Restated)
Net sales	$1,558,340,000	$1,358,887,000
Net earnings	$ 16,899,000	$ 15,411,000
Net earnings per share	$.94	$.86

▪ Effective February 25, 1978 the Company disposed of the operations of its Harrison House food service division by selling three of its locations for cash totaling $9,358,000 net of liabilities retained and discontinuing operations of the fourth one. Harrison House sales for the second quarter and first half of fiscal 1978 were $19,599,000 and $46,139,000, representing about 3.3% and 3.9% of Super Valu sales, respectively. The results of operations for Harrison House for the second quarter of fiscal 1978 were not significant to the quarter.

Super Valu Stores, Inc.
101 Jefferson Avenue South
Hopkins, Minnesota 55343
(612) 932-4444

Super Valu Second Quarter Report

12 and 28 Weeks Ended Sept. 9, 1978

FIRST CLASS

Summary of Earnings

Super Valu Stores, Inc., and Consolidated Subsidiaries

Net Sales

Cost and Expenses:

Cost of sales

Selling and administrative expenses

Interest and other debt expense

Earnings Before Income Taxes

Provision For Income Taxes:

Currently payable (includes investment tax credit of $560,000 for 1978 and $360,000 for 1977)

Deferred

Net Earnings Of Super Valu Stores, Inc. And Consolidated Subsidiaries

Net Earnings Of Unconsolidated Finance Subsidiary

Net Earnings

Weighted Average Number Of Common Shares Outstanding

Sept. 9, 1978	Sept. 10, 1977 (Restated)
$214,459,000	$231,298,000
6,845,000	7,909,000
3,365,000	6,400,000
2,746,000	2,906,000
117,029,000	66,931,000
46,583,000	61,410,000
$391,027,000	$376,854,000
$170,320,000	$165,784,000
30,211,000	29,098,000
51,797,000	68,692,000
1,014,000	1,233,000
137,685,000	112,047,000
$391,027,000	$376,854,000

NET EARNINGS PER COMMON SHARE

DIVIDENDS DECLARED PER COMMON SHARE

See notes to financial statements.

Notes to Financial Statements

▪ The company used the last-in, first-out method (LIFO) for determining cost for a major portion of wholesale food inventories (58.4% for fiscal 1979 and 59.4% for fiscal 1978 on the total current cost of consolidated inventories). If the first-in, first-out method (FIFO) had been used to determine cost of inventories for which the LIFO method is used, the Company's inventories would have been $18,620,000 higher at September 9, 1978 and $14,580,000 higher at September 10, 1977.

▪ Stockholders, at the June 27, 1978 annual stockholders meeting approved an increase in the authorized number of common shares from 15,000,000 to 30,000,000 shares and the adoption of a Stock Appreciation Rights Plan. The Board of Directors at their June 27, 1978 meeting also approved a 2-for-1 Common Stock split which was effected in the form of a 100% stock dividend to stockholders of record on July 11, 1978.

▪ Beginning the second quarter of the prior year the Company purchased the business of Charley Brothers Company, a wholesale grocery firm headquartered near Pittsburgh. The results of Charley Brothers Company operations since the effective date of purchase, June 18, 1977, are included in the operating results. The pro-forma first half comparison that would result if the operations of Charley Brothers Company had been included in the first quarter of fiscal 1978 is presented below.

I am pleased to announce that we have recently elected two new directors, both of extremely high caliber, and they will begin serving on the board at the October meeting. One of them is Harriet Perlmutter of Short Hills, N.J., long associated with the food industry. She is a business woman, mother of three children, and a most active participant in educational, cultural and religious affairs. Mrs. Perlmutter's husband, Milton, was a valued member of the Super Valu board until his death last March.

The other new director is Fredric (Fritz) Corrigan, chairman of the executive committee of the Peavey Company, an internationally-known Minneapolis-based grain merchandising and milling firm. Mr. Corrigan is a former president of the Minneapolis Grain Exchange.

In these challenging times, it is a great satisfaction to have two such knowledgable additions to the board. Your company faces the second half of the fiscal year in strong financial position and with expectations for continued progress and performance.

Sincerely,

Jack J. Crocker
Chairman and Chief Executive Officer

Summary of Earnings (cont'd) First Half

Super Valu Stores, Inc., and Consolidated Subsidiaries

	First Half (28 Weeks) Ended		%
	Sept. 9, 1978	Sept. 10, 1977 (Restated)	Increase
Net Sales	**$1,558,340,000**	$1,281,008,000	21.6
Cost And Expenses:			
Cost of sales	**1,441,387,000**	1,179,131,000	22.2
Selling and administrative expenses	**81,231,000**	72,030,000	12.8
Interest and other debt expense	**3,912,000**	3,856,000	1.5
	1,526,530,000	1,255,017,000	21.6
Earnings Before Income Taxes	**31,810,000**	25,991,000	22.4
Provision For Income Taxes:			
Currently payable (includes investment tax credit of $1,040,000 for 1978 and $840,000 for 1977)	**15,093,000**	12,777,000	
Deferred	**344,000**	(297,000)	
	15,437,000	12,480,000	23.7
Net Earnings Of Super Valu Stores, Inc. And Consolidated Subsidiaries	**16,373,000**	13,511,000	21.2
Net Earnings Of Unconsolidated Finance Subsidiary	**526,000**	455,000	15.6
Net Earnings	**$ 16,899,000**	$ 13,966,000	21.0
Weighted Average Number of Common Shares Outstanding	**17,990,000**	17,858,000	.7
NET EARNINGS PER COMMON SHARE	**$.94**	$.78	20.5
DIVIDENDS DECLARED PER COMMON SHARE	**$.24¼**	$.19	27.6

See notes to financial statements.

Condensed Balance Sheets

Super Valu Stores, Inc., and Consolidated Subsidiaries

Assets

Current Assets

Other Assets and Deferred Charges

Investment In and Advances To Unconsolidated Finance Subsidiary

Deferred Income Tax Benefits

Property, Plant and Equipment, net

Leased Assets Under Capital Leases, net

Liabilities And Stockholders' Equity

Current Liabilities

Long-Term Notes Payable

Obligations Under Capital Leases

Other Liabilities

Stockholders' Equity

See notes to financial statements.

Second Quarter

Second Quarter (12 Weeks) Ended: Sept. 9, 1978	Sept. 10, 1977 (Restated)	% Increase (Decrease)
$682,732,000	$594,679,000	14.8
627,931,000	546,533,000	14.9
38,133,000	33,973,000	12.2
1,810,000	1,654,000	9.4
667,874,000	582,160,000	14.7
14,858,000	12,519,000	18.7
7,163,000	6,546,000	
(27,000)	(467,000)	
7,136,000	6,079,000	17.4
7,722,000	6,440,000	19.9
205,000	232,000	(11.6)
$ 7,927,000	$ 6,672,000	18.8
18,015,000	17,867,000	.8
$.44	$.37	18.9
$.13½	$.10¾	25.6

To Our Shareholders

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Net sales for the second quarter totaled $682,700,000, which was 15 per cent higher than the $594,700,000 reported for the comparable period last year. The year-to-date sales of $1,558,300,000 are up 22 per cent from $1,281,000,000 reported a year ago.

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Super Valu Second Quarter Report

12 and 28 Weeks Ended Sept. 9, 1978

FIRST CLASS

Summary of Earnings

Super Valu Stores, Inc., and Consolidated Subsidiaries

Net Sales

Cost and Expenses:
Cost of sales
Selling and administrative expenses
Interest and other debt expense

Earnings Before Income Taxes

Provision For Income Taxes:
Currently payable (includes investment tax credit of $560,000 for 1978 and $360,000 for 1977)
Deferred

Net Earnings Of Super Valu Stores, Inc. And Consolidated Subsidiaries

Net Earnings Of Unconsolidated Finance Subsidiary

Net Earnings

Weighted Average Number Of Common Shares Outstanding

Sept. 9, 1978	Sept. 10, 1977 (Restated)
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NET EARNINGS PER COMMON SHARE
DIVIDENDS DECLARED PER COMMON SHARE

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Sincerely,

Jack J Crocker

Jack J. Crocker
Chairman and Chief Executive Officer

Super Valu Stores, Inc., and Consolidated Subsidiaries

	First Half (28 Weeks) Ended Sept. 9, 1978	Sept. 10, 1977 (Restated)	% Increase
Net Sales	**$1,558,340,000**	$1,281,008,000	21.6
Cost And Expenses:			
Cost of sales	**1,441,387,000**	1,179,131,000	22.2
Selling and administrative expenses	**81,231,000**	72,030,000	12.8
Interest and other debt expense	**3,912,000**	3,856,000	1.5
	1,526,530,000	1,255,017,000	21.6
Earnings Before Income Taxes	**31,810,000**	25,991,000	22.4
Provision For Income Taxes:			
Currently payable (includes investment tax credit of $1,040,000 for 1978 and $840,000 for 1977)	**15,093,000**	12,777,000	
Deferred	**344,000**	(297,000)	
	15,437,000	12,480,000	23.7
Net Earnings Of Super Valu Stores, Inc. And Consolidated Subsidiaries	**16,373,000**	13,511,000	21.2
Net Earnings Of Unconsolidated Finance Subsidiary	**526,000**	455,000	15.6
Net Earnings	**$ 16,899,000**	$ 13,966,000	21.0
Weighted Average Number of Common Shares Outstanding	**17,990,000**	17,858,000	.7
NET EARNINGS PER COMMON SHARE	**$.94**	$.78	20.5
DIVIDENDS DECLARED PER COMMON SHARE	**$.24¼**	$.19	27.6

See notes to financial statements.

Condensed Balance Sheets

Super Valu Stores, Inc., and Consolidated Subsidiaries

Assets

Current Assets

Other Assets and Deferred Charges

Investment In and Advances To Unconsolidated Finance Subsidiary

Deferred Income Tax Benefits

Property, Plant and Equipment, net

Leased Assets Under Capital Leases, net

Liabilities And Stockholders' Equity

Current Liabilities

Long-Term Notes Payable

Obligations Under Capital Leases

Other Liabilities

Stockholders' Equity

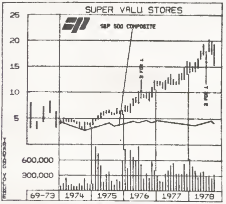
See notes to financial statements.

Second Quarter

Second Quarter (12 Weeks) Ended Sept. 9, 1978	Sept. 10, 1977 (Restated)	% Increase (Decrease)
$682,732,000	$594,679,000	14.8
627,931,000	546,533,000	14.9
38,133,000	33,973,000	12.2
1,810,000	1,654,000	9.4
667,874,000	582,160,000	14.7
14,858,000	12,519,000	18.7
7,163,000	6,546,000	
(27,000)	(467,000)	
7,136,000	6,079,000	17.4
7,722,000	6,440,000	19.9
205,000	232,000	(11.6)
$ 7,927,000	$ 6,672,000	18.8
18,015,000	17,867,000	.8
$.44	$.37	18.9
$.13½	$.10¾	25.6

Stock—	Price Nov. 9'78	*P-E Ratio	Dividend	Yield
COMMON	16	9	[2]\$0.54	[2]3.4%

SUMMARY: **Super Valu is the largest domestic food wholesaler, heading a voluntary group of some 1,970 food stores in the Central and Southeastern U.S. Earnings in recent years have benefited from the relatively new and still small, higher-margined apparel retailing and discount department store operations.**



[5]NET SALES (Million \$)

Period:	1978-9	1977-8	1976-7	1975-6
16Wks.Jun.	875.6	686.3	619.4	521.2
12Wks.Sept.	682.7	594.7	483.5	410.6
12Wks.Dec.		640.6	511.5	419.7
12Wks.Feb.		671.9	519.2	[4]469.7

Sales for the 28 weeks ended September 9, 1978 rose 22% from those of the year-earlier period. Higher volume and the full-period inclusion of Charley Brothers accounted for about one-half of the sales gain; inflationary price increases also contributed to the rise. Margins were well maintained, aided by good control of selling and administrative expenses; operating income gained 21%. Interest charges increased only slightly, thereby moderating a significant rise in depreciation and amortization expenses. In all, nonoperating charges rose at a slower pace than operating income, and pretax income advanced 22%. After taxes at a slightly higher effective rate (48.5%, versus 48.0%), and increased earnings of a finance subsidiary, net income was ahead 21%. Share earnings equaled \$0.94, compared with \$0.78 a year earlier, as adjusted for the August, 1978, 2-for-1 stock split.

[36]COMMON SHARE EARNINGS (\$)

Period:	1978-9	1977-8	1976-7	1975-6
16Wks.Jun.	0.50	0.41	0.31	0.21
12Wks.Sept.	0.44	0.37	0.26	0.22
12Wks.Dec.		0.46	0.30	0.22
12Wks.Feb.		0.45	0.36	[4]0.25

PROSPECTS

Near Term—Sales for the fiscal year ending in late February, 1979 could be about \$3-\$3.05 billion, compared with the \$2.59 billion of 1977-8. Contributing to the gain will be benefits from the acquisition of Charley Brothers, an increase in the number of accounts served, and, in the nonfood area, continued unit-expansion and the maturation of recently opened stores.

Margins are expected to be well-maintained, reflecting continuation of strict cost control measures and emphasis on sales of wider-margined nonfood items. The year-to-year earnings comparison of the first quarter will probably be the strongest of the year, since it was against the 1977-8 interim that does not include Charley Brothers (acquired June 18, 1977). In all, share earnings for 1978-9 are expected to be in the area of \$2.00, compared with the \$1.69 of 1977-8, as adjusted for the 2-for-1 split of August, 1978. Dividends of \$0.13½ quarterly are the minimum expectation.

Long Term—Future growth should stem increasingly from rising sales to existing and additional affiliate stores and from diversification into nonfood retailing.

RECENT DEVELOPMENTS

Management has indicated it does not foresee significant growth in SVU's involvement in corporate retail food stores.

In September, 1978 SVU said it had placed privately \$25 million in debt, and combined the new debt with previously outstanding notes into a \$49 million 8.45% note due 1992.

On February 25, 1978 SVU sold its Harrison House food service operation (1977-8 sales of about \$83 million) for \$9,358,000 cash, resulting in an "insignificant" loss.

DIVIDEND DATA

Payments in the past 12 months were:

Amt of Divd \$	Date Decl	Ex divd Date	Stock of Record	Payment Date
0.21½	Dec. 14	Feb. 22	Feb. 28	Mar. 15'78
0.21½	Apr. 25	May 22	May 30	Jun. 15'78
*.......	....	Aug. 8	Jul. 11	Aug. 7'78
*2-for-1 split.				
--After 2-for-1 split--				
0.13½	Jun. 27	Aug. 23	Aug. 29	Sep. 15'78
0.13½	Oct. 25	Nov. 21	Nov. 28	Dec. 15'78

[1]Listed N.Y.S.E. [2]Indicated rate. [3]Adj. for 2-for-1 splits in Aug. 1978 & 1976. [4]13 wks. [5]Reflects 1976–7 formation of nonconsol. finance subsid. in 1975–6. [6]Reflects 1977–8 acctg. change for capital leases aft. 1975–6. *Based on latest 12 mos. earns.

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Vol. 45, No. 221 Wednesday, November 15, 1978 Sec. 17

[1]INCOME STATISTICS (Million $) AND PER SHARE ($) DATA

[4]Year Ended Feb. 28	Net Sales	%Oper. Inc. of Sales	Oper. Inc.	Depr. & Amort.	Net bef. Taxes	[7]Net Inc	[3]Common Share ($) Data: [6,7]Earns.	Divs. Paid	[5]Price Range	Price-Earns. Ratios HI LO
1978--	------	--	----	----	----	----	----	0.48½	20¼-13⅞	----
1977--	2,593.50	3.2	83.86	19.32	57.09	30.11	1.69	0.38	16⅛-10⅝	10- 6
1976--	2,133.55	2.5	53.87	9.96	41.55	22.34	1.26	0.30¼	12¼- 6¼	10- 5
[2]1975--	1,823.01	2.2	39.32	7.87	27.94	14.34	0.90	0.25	7 - 3¾	8- 4
1974--	1,641.75	2.0	33.44	7.13	21.89	11.06	0.72	0.20¾	5 - 3	7- 4
1973--	1,447.67	1.6	23.13	6.89	17.02	9.14	0.60	0.19	6¼- 3¼	10- 5
1972--	1,220.36	1.7	20.80	6.06	15.68	8.45	0.55	0.19	8¼- 6	15-11
1971--	1,021.88	2.0	20.13	5.33	15.69	8.03	0.52	0.18½	7¼- 4⅜	14- 8
1970--	859.01	1.8	15.29	4.45	11.76	5.86	0.38	0.18½	4⅜- 3	12- 8
1969--	790.68	1.6	12.29	3.54	8.63	4.16	0.33	0.18½	8 - 3¼	24-10
1968--	739.76	1.6	12.09	3.03	9.45	4.74	0.38	0.18½	8⅜- 5½	22-15

[1]PERTINENT BALANCE SHEET STATISTICS (Million $)

[4]Feb. 28	Gross Prop.	Net Capital Expend.	Cash Items	Inventories	Receivables	Current Assets	Current Liabs	Net Workg. Cap	Cur Ratio	Long Term Debt	Sharehldrs. Equity	[3]($) Book Val. Com. Sh.
1977--	209.69	45.21	29.07	158.93	43.77	239.53	179.04	60.49	1.3-1	88.44	124.44	6.68
1976--	91.07	24.61	47.55	125.38	23.23	201.94	130.03	71.91	1.6-1	28.18	105.71	5.93
1975--	71.95	15.59	43.76	113.56	29.94	194.68	119.71	74.97	1.6-1	28.24	88.49	4.98
1974--	62.01	5.96	17.45	96.94	35.54	157.82	85.80	72.03	1.8-1	41.06	64.75	4.22
1973--	58.97	10.00	5.11	97.84	32.90	140.55	75.40	65.15	1.9-1	43.94	56.95	3.71
1972--	52.61	11.86	1.50	78.20	28.93	120.46	63.76	56.70	1.9-1	38.18	50.76	3.31
1971--	43.87	11.78	12.79	63.67	20.40	100.58	48.24	52.34	2.1-1	32.24	45.32	2.90
1970--	34.36	6.50	10.78	52.06	21.04	89.07	45.28	43.80	2.0-1	22.04	40.54	2.58
1969--	28.13	5.98	2.97	42.57	19.36	68.26	39.20	29.06	1.7-1	8.86	34.69	2.71
1968--	23.69	4.92	2.57	40.88	19.28	65.78	35.59	30.19	1.8-1	9.29	32.88	2.53

[1]Data for 1973 & thereafter as originally reported; data for each yr. prior to 1973 as taken from subsequent yr.'s Annual Report; reflect accto. change for capital leases aft. 1976; reflects partial adoption of LIFO acctg. aft. 1973; incl. Shopko Stores Inc & Daytex Inc. aft. 1969. [2]53 wks. [3]Adj. for splits of 2-for-1 in Aug. 1978 & 1976 & 3-for-2 in Dec. 1971. [4]Of the foll. cal. yr.; yrs. ended Dec. 31 prior to 1972. [5]Cal. yr. [6]Based on com. shs. & com. sh. equivalents ($0.97 pfd. stk. prior to red. & options where applicable). [7]Aft. $0.26 a sh. reduction from partial adoption of LIFO acctg. in 1974.

Fundamental Position

Super Valu is the nation's largest food wholesaler, serving over 1,970 retail food stores in some 24 states, mostly in the Midwest and Southeast. The company also sells food and supplies to institutions and operates supermarkets, convenience stores, department stores, and leisure apparel outlets.

Food store operations accounted for 90.5% of sales and 69.3% of operating earnings in 1977-8, and retail general merchandise operations for 9.5% and 30.7%, respectively. Of the sales attributable to food store operations, about 90% were on a wholesale basis, 7% were at retail, and 3% were institutional; of retail general merchandise sales, 45% were by County Seat stores and 55% by ShopKo stores.

Food stores serviced at 1977-8 year-end include 1,864 operated by independent retailers and 107 stores either owned or in which the company has a majority interest. Of the company stores, 67 are convenience units and 40 are supermarkets.

Wholesale sales are made principally on a cost-plus fee basis. Products supplied include nationally advertised brands as well as private label brands. In addition to supplying merchandise, the company offers retail stores it serves a wide variety of promotional, managerial and financial services. Deliveries are principally from SVUs 11 warehouses.

General merchandise operations include 193 County Seat casual apparel stores in 33 states, and 21 ShopKo department stores selling hard and soft goods in 4 states. About 85% of County Seat sales are of "Levi's" brand name goods.

Dividends, paid each year since 1936, averaged 26% of earnings in the five years through 1977-8. SVU has said that its target payout ratio is expected to increase to "approximately 30% of the most recent four quarters in realized net earnings per share."

Employees: 13,000. Shareholders: 4,659.

Finances

In June, 1977 SVU acquired for $19,633,000 cash Charley Brothers Co., a wholesale grocer with annual sales of about $225 million. Had Charley Brothers been included in results for all of 1977-8, SVU would have had pro forma sales of $2.67 billion and share earnings of $1.77 (adjusted).

SVU's capital spending budget for 1978-9 is $81 million, of which $66 million is for the purchase of fixed assets and equipment.

A change in accounting for capital leases had the effect of reducing previously reported share earnings for 1976-7 by $0.03.

Adoption of LIFO accounting for certain inventories reduced share earnings for 1977-8 by $0.03 (adjusted).

Institutional Holdings

Institutions: 64. Shares: 4,566,000 (25% of the total outstanding).

CAPITALIZATION (9/9/78)

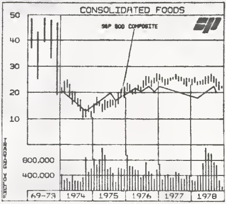
LONG TERM DEBT: $82,008,000, incl. $51,797,000 of capital lease obligations.

COMMON STOCK: 18,022,400 shs. ($1 par).

Incorporated in Delaware in 1925. **Office**—101 Jefferson Ave. South, Hopkins, Minn. 55343. **Tel**—(612) 932-4444. **Chrmn & Pres**—J. J. Crocker. **VP-Secy**—C. D. Dugan. **VP-Treas**—J. L. Slavick. **Dirs**—W. S. Bailey, F. H. Carrigan, J. J. Crocker, M. Lewis, Jr., J. P. McFarland, G. W. McKay, J. E. Morrissey, R. W. Mueller, H. Perlmutter, J. H. Ruben, J. L. Slovick, P. J. van Helden, A. R. Weber, A. R. Whitman, M. W. Wright, J. T. Wyman. **Transfer Agents**—Morgan Guaranty Trust Co., NYC; First National Bank of Minneapolis. **Registrars**—Chemical Bank, NYC; Northwestern National Bank of Minneapolis.

Stock—	Price Dec. 13'78	*P-E Ratio	Dividend	Yield
COMMON	21⅞	7	[2]$1.60	[2]7.3%
$4.50 CONV. PREFERRED	57		4.50	7.9

SUMMARY: This large, diversified company holds important interests in the production of processed foods and a variety of consumer, industrial and commercial nonfood products. Growth prospects are enhanced by recent divestitures, emphasis on markets where the company holds strong brand positions, and acquisitions.



[3]NET SALES (Million $)

Quarter:	1978-9	1977-8	1976-7	1975-6
Sept.	1,059.3	783.6	732.2	675.6
Dec.		768.1	715.9	668.7
March		930.2	709.4	647.3
June		1,053.7	775.4	763.3

Sales for the fiscal year ended July 1, 1978 rose 21% from those of the prior year, as restated for the pooling acquisition of Chef Pierre. About two-thirds of the advance reflected the inclusion of Douwe Egberts since January, 1978. The remainder was due to growth in the company's food business; nonfood revenues declined slightly because of numerous divestitures. Higher earnings were reported for the food operations, and benefiting from an inventory adjustment related to the acquisition of Douwe Egberts, pretax income advanced 29. However, tax consequences of the adjustment had an offsetting effect, and net income was up 11%.

For the quarter ended September 30, 1978, sales increased 35%, year to year, in large part reflecting the acquisition of Douwe Egberts. Net income rose 12%.

PROSPECTS

Near Term—Sales for the fiscal year ending June 30, 1979 are expected to score a strong advance from the $3.54 billion of the prior year, aided by the full-year inclusion of Douwe Egberts. Excluding Douwe, sales should be up moderately, with most of the improvement in the food area. Nonfood revenues will probably show a slight gain, despite recent divestitures.

Margins will benefit from the full-year inclusion of Douwe Egberts, which is reporting strong earnings due to a decline in coffee bean costs. Most other food segments are also expected to post good progress. In the non-food area, Electrolux, will show a modest gain, although expenses related to new product introductions will be restrictive.

Earnings for 1978-9 will probably rise some 12%-14% from the $3.21 a share (primary) of 1977-8. The quarterly dividend has been raised to $0.40, from $0.37½, effective with the January 2, 1979 payment.

Long Term—Recent divestitures of less profitable operations in the non-food sector and efforts to bolster internal growth where the company has major product positions enhance longer-term prospects. Also, acquisitions will be important.

RECENT DEVELOPMENTS

Following a $61 a share tender offer in early December, 1978 CFD owned or had agreements to purchase about 75% of the 4.3 million outstanding common shares of Hanes Corp. (CFD owned 21% of Hanes prior to the tender offer). The company expects to acquire the remaining Hanes shares in early 1979. Hanes is a major factor in men's and boy's underwear and in women's hosiery; it earned $20.8 million on sales of $414 million in 1977.

[3,4]COMMON SHARE EARNINGS ($)

Quarter:	1978-9	1977-8	1976-7	1975-6
Sept.	0.88	0.78	0.70	0.63
Dec.		0.74	0.67	0.59
March		0.70	0.62	0.53
June		0.99	0.88	[5]1.24

DIVIDEND DATA

A dividend reinvestment plan is available.

Amt. of Divd $	Date Decl	Ex-divd Date	Stock of Record	Payment Date
0.37½.	Jan. 26	Feb. 28	Mar. 6	Apr. 1'78
0.37½.	May 2	May 26	Jun. 5	Jul. 1'78
0.37½.	Jun. 29	Aug. 29	Sep. 5	Oct. 1'78
0.40..	Oct. 26	Nov. 28	Dec. 4	Jan. 2'79

[1]Listed N.Y.S.E.; com. also listed Midwest & Pacific S.Es. & traded Boston, Cincinnati & Philadelphia S.Es. [2]Indicated rate. [3]Incl. Chef Pierre Inc. (acqd. in 1977–8) aft. 1975–6; incl. Fuller Brush Co. (previously classified as discont.) in 1975–6. [4]Primary earns. (based on com. shs. & com. sh. equivalents. [5]Aft. $0.43 cr. from reversal of loss on disposal of assets. d Deficit. *Based on latest 12 mos. earns.

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Vol. 45, No. 243 Tuesday, December 19, 1978 Sec. 11

[1]INCOME STATISTICS (Million $) AND PER SHARE ($) DATA

Year Ended June 30	Net Sales	% Op. Inc. of Sales	Oper. Inc.	Deprec	Net Bef. Taxes	[2]Net Inc.	[2]Earns.	[5]Divs. Decl.	[3]Price Range	Price-Earns. Ratios HI LO
1979—	——	--	——	——	——	——	——	0.77½	——	——
1978—	3,535.6	8.4	296.93	50.16	232.95	100.63	[4]3.21	1.47½	27 -21	8-7
1977—	2,892.0	7.9	227.26	41.62	175.81	88.07	[4]2.93	1.38¾	27 -22½	9-8
1976—	2,754.9	7.6	208.07	39.00	155.02	89.45	[4]2.99	1.35	27¼ -19⅜	9-6
1975—	2,443.0	6.6	160.86	33.61	101.41	12.74	0.27	1.35	22 -12⅜	81-46
1974—	2,379.0	7.7	182.09	31.02	129.75	71.58	2.41	1.33¾	24⅞ -10½	10-4
1973—	2,042.9	8.7	178.35	27.23	141.03	76.21	2.68	1.287	46⅞ -19¼	17-7
1972—	1,782.5	8.9	159.22	24.81	124.95	69.12	2.44	1.23½	48 -33⅛	20-14
1971—	1,598.5	9.6	153.46	22.70	117.89	61.06	2.23	1.17½	48⅞ -39⅜	22-18
1970—	1,505.4	9.1	136.57	20.69	107.48	55.60	2.14	1.07½	43¼ -25⅛	20-12
1969—	1,445.6	8.9	128.89	18.79	102.01	51.52	2.08	0.97½	48½ -37	23-18

[1]PERTINENT BALANCE SHEET STATISTICS (Million $)

June 30	Gross Prop.	Capital Expend.	Cash Items	Inventories	Receivables	Current Assets	Current Liabs.	Net Workg. Cap.	Cur Ratio	Long Term Debt	Sharehldrs. Equity	($) Book Val. Com. Sh
1978—	750.20	80.82	111.43	507.87	382.96	1,035.34	545.38	489.96	1.9-1	261.85	727.11	19.23
1977—	611.52	61.38	100.77	369.74	239.97	729.92	306.51	423.40	2.4-1	164.77	667.02	18.77
1976—	585.46	57.07	114.72	327.11	234.19	691.26	305.00	386.26	2.3-1	173.83	623.63	17.15
1975—	561.53	51.84	41.43	308.73	209.92	587.27	239.53	347.74	2.5-1	184.96	577.85	15.53
1974—	531.42	56.52	12.70	393.19	276.55	699.50	340.24	359.26	2.1-1	189.71	603.75	16.62
1973—	492.49	71.10	17.87	292.95	237.89	565.75	233.48	332.27	2.4-1	194.59	558.21	15.73
1972—	428.06	66.75	24.49	247.94	216.23	502.02	207.18	294.84	2.4-1	152.00	513.03	14.66
1971—	385.18	54.62	14.29	232.39	184.60	446.29	194.43	251.86	2.3-1	113.00	470.76	13.63
1970—	344.77	44.36	26.94	236.38	163.50	438.24	181.90	256.34	2.4-1	113.57	426.61	12.89
1969—	301.69	36.61	79.87	199.56	115.59	407.66	158.74	248.92	2.6-1	120.57	381.52	12.08

[1]Data for 1973 & thereafter as originally reported; data for each yr prior to 1973 as taken from subsequent yr.'s Annual Report. [2]Aft. $0.43 a sh. cr. from reversal of provision for loss on disposal of assets in 1976, $1.04 provision for loss on disposal of assets in 1975, bef. spec. chgs. of $0.15 in 1973 & $0.13 in 1972. [3]Cal. yrs. [4]Primary earns. (based on com. shs. & com. sh equivalents); fully diluted sh. earns were $3.10 in 1978, $2.83 in 1977 & $2.89 in 1976 [5]In 1978 & 1977 incl initial divd. decl. in prior fiscal yr.

Fundamental Position

The company is a broadly diversified concern, serving its various markets with well-known branded consumer goods and services. In fiscal 1977-8 frozen and processed foods accounted for 31% of sales and 27% of operating income, food service for 21% and 11%, beverages and confections 18% and 18%, home products and serviced 21% and 34%, and commercial products and apparel 9% and 10%.

Frozen baked goods are made by Kitchens of Sara Lee and Chef Pierre, specialty meats by Kahn's, Bryan Foods, Hillshire Farm, Rudy Farm, and Cook's, sea-food by Booth Fisheries, frozen potato products by Idaho Frozen Foods, pickles and relishes by Bloch & Guggenheimer, refined beet sugar by Union Sugar, and canned fruits and vegetables by Jonker Fris (Netherlands).

Food services are handled by Monarch and PYA (institutional markets), Lawson (convenience stores), and Lyon's Restaurants.

Soft drinks, candy and frozen confections (ice cream) are made by Shasta, Hollywood Brands, and Popsicle Industries. Through a 65% interest in Douwe Egberts B.V. (acquired in January, 1978), the company is a leading international producer of coffee, tea and tobacco products.

The home products and services group produces and sells carpet and floor care appliances, housewares, drapery hardware, tools, hobby products, personal and home care products, and sewing supplies. Operations are conducted by Electrolux, Fuller Brush, Graber, Oxwall Tool, Tyco, Intradal, and Conso Products.

Commercial products and services include specialty chemicals, building maintenance and security services, and vehicle cleaning supplies.

Apparel companies include Canadian Lady, Robert Bruce, Gant, Aris Gloves, and Sirena.

Dividends, initiated in 1946, averaged 58% of available earnings in the five years through 1977-8.

Employees: 80,900. Shareholders: 47,200. Com.; 4,600 Pfd.

Finances

In March, 1978 the company placed privately $100 million of 8.65% notes due 1998. Proceeds were used in part to repay $68 million of short-term debt.

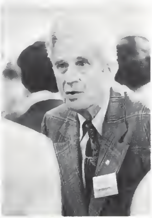
Institutional Holdings

Institutions: 147. Shares: 6,297,000 (22% of the total outstanding).

CAPITALIZATION

LONG TERM DEBT: $262,144,000.
MINORITY INTEREST: $66,282,000.
$4.50 CUM. CONV. PREFERRED STOCK SERIES A: 1,179,729 shs. (no par); red. in 1978 at $106, declining $1 annually to $100 in 1984; conv. into 2.357 com. shs.
COMMON STOCK: 29,282,123 shs. ($1.33 1/3 par).

Incorporated in Md. in 1941. **Office**—135 South LaSalle St., Chicago, Ill. 60603. **Tel**—(312) 726-6414. **Chrmn & Chief Exec Officer**—J. H. Bryan, Jr. **Pres**—J. J. Cardwell. **VP-Secy**—G. H. Newman. **VP-Treas**—W. T. White, Jr. **Dirs**—J. H. Bryon, Jr., J. J. Cardwell, N. Cummings, T. Cummings, J. T. Fey, R. E. Guggenhime, R. C. Gunness, W. A. Jennett, H. Krayenhoff, B. C. Mayer, P. W. McCracken, C. A. McKee, J. D. Muncaster, R. R. Pearce, M. J. Schloss, Jr., R. L. Thomas. **Transfer Agents**—Continental Illinois National Bank & Trust Co., Chicago; Chase Manhattan Bank, NYC. **Registrars**—First National Bank, Chicago; Morgan Guaranty Trust Co., NYC.



Ferris Kallon

Q. One of your comments was that Super Valu plans to spend $15 million listed as "other" in the capital budget discussion. Can you comment on how the $15 million will be spent?

A. A portion of those funds has been set aside for a new corporate office building that is scheduled to be built starting this year. The remainder is a general contingency fund for projects which emerge during the year which were not originally budgeted.

Q. What are your plans for geographical expansion of Super Valu's food business?

A. Super Valu might be considered to be in two categories, corporate stores and the independent stores we serve. The majority of the company's business is with independent retail operators with whom we are always seeking to expand our customer base. The greatest recent expansion was the acquisition of Charley Brothers Co. just outside of Pittsburgh, which expanded our territory to the east. In the wholesale food business it is our current belief that the most practical way to grow geographically is through acquisitions and mergers. It is difficult to start from scratch and build a new warehouse, stock and equip it and capture new business. The corporate stores we operate are located in Fargo/Moorhead and in the state of Mississippi. We do not foresee significant growth in Super Valu's involvement in corporate retail food stores.

Mrs. Thomas G. Harrison (left) and Mrs. Paul Gerin

Q. Do you have any acquisitions or mergers planned?

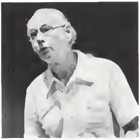
A. We frequently talk about mergers and acquisitions with other companies and I believe that sometime within the next year or two we may have another acquisition. However, we see little reason to acquire a new business just for the sake of making the company larger.

Q. I have heard that Grocery Wagon is part of Super Valu. Is that true?

A. The Grocery Wagon (a shop by telephone business with home delivery service) is a customer of Super Valu; we have no ownership position and therefore it is not a part of our company.

Q. Why don't you have any food retailers on the Board of Directors? Some of these retailers are among the smartest men in the business.

A. When we listed our stock on the New York Stock Exchange, one of the restrictions placed upon us was that we would not have a customer on the Board of Directors because of potential conflict of interest.



Horace McLaughlin

SUPER VALU

Super Valu Stores, Inc.
101 Jefferson Avenue South
Hopkins, Minnesota 55343
(612) 932-4444

FIRST CLASS

Childs and his wife, Charlotte, were presented mementoes of the occasion.

Comments given at the meeting by Jack J. Crocker, chairman and chief executive office, are summarized in this report. A presentation to shareholders by James L. Slovick, senior vice president—finance and treasurer follows.

James L. Slovick
Senior Vice President—Finance and Treasurer

Good morning, everyone.

In February, Super Valu completed another solid year of operating results.

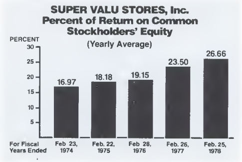
Sales for the current year of $2.6 billion were 22 per cent ahead of the $2.1 billion that Super Valu reported for fiscal 1977. This represents the 24th consecutive year of increases in sales. In tracing the history of our sales performance, I went back to the year 1954 when Super Valu changed its corporate name from Winston & Newell. Sales for that year, 1954, were $90 million. Over the 24-year period, Super Valu has compounded its sales at the rate of 15 per cent, which is remarkable.

For fiscal 1978, after-tax earnings increased 38 per cent from $21.8 million to $30.1 million. Earnings increased at a faster rate than sales did, primarily because of good expense control and also, because of the higher net margins that are generated by our non-food operations of County Seat and ShopKo.

Earnings per share also increased 38 per cent from $1.23 to $1.69 after giving effect to the 2-for-1 stock split discussed in notes to financial statements; this represents the eighth consecutive year of increases in earnings and earnings per share for Super Valu. I should point out that the earnings gain would have been about 5 cents per share higher, except that we adopted two new accounting conventions. In the first instance, we adopted FASB #13, which calls for the capitalization of capital leases, which had the effect of reducing our earnings 3 cents per share. Additionally, we adopted two new LIFO categories for valuing the inventory of our wholesale food divisions, which reduced our earnings per share an additional 3 cents.

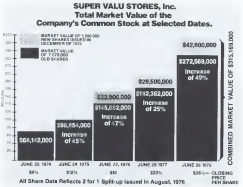
Shifting to the balance sheet, we see the results of a fine performance here as well. Our total debt, which includes leases, did not grow, but stayed constant at $137 million at each year end. While our debt did not increase, our stockholders' equity went up by $23 million, from $101 million to $124 million. The $23 million addition is the difference between our earnings of $30 million and our dividend payments of $7 million. This has had the effect of improving our debt to total capital ratios, which means that we have a stronger balance sheet along with a good earnings statement.

Super Valu's return on equity increased last year to 26.66 per cent, almost 27 per cent. This is a very high rate of return for our stockholders, and puts Super Valu in the number one position when compared with the other top five firms in the food wholesaling industry.



The market value of Super Valu's common stock has increased four-fold since our shareholders' meeting in 1974.

The market value of the shares outstanding on June 25, 1974, was $68 million and has risen to $272 million.



The combined market value of all of Super Valu's common stock as of June 26, 1978, was $315 million, which includes the market value of the 1.2 million new shares that were issued in a public offering in December 1975.

Leaving history for a moment and turning to the future, I would like to explain Super Valu's capital spending plans for fiscal 1979. For this new year, the company plans to spend $81 million, most of which will involve the cash purchase of fixed assets and equipment.

If we take these spending plans of $81 million and break them down by line of business, we find that we will devote $29 million to our wholesale food activities, which includes significant additions and remodeling projects to our existing warehouses in Anniston, AL, Bismarck, ND, Green Bay, WI, and also our facility in Minneapolis. In addition we are presently constructing a new replacement facility of 325,000 sq. ft. in Fargo, ND.

EXPANSION PLANS FOR FISCAL 1979

Wholesale Food Activities	**$29 Million**
County Seat	**17 Million**
ShopKo	**20 Million**
Other Projects	**15 Million**
TOTAL	**$81 Million**

Approximately $17 million has been budgeted for County Seat activities, including the opening of 35 new County Seat leisure wear stores and also to equip all its stores with new electronic cash registers. These electronic cash registers record point of sale information valuable in inventory control and product purchasing. The system will enable County Seat to pinpoint fast moving products and change in-stock positions to take advantage of fashion trends.

County Seat continues with its basic goal of being the complete Levi's store with strong positions in the most popular items—denim and corduroy jeans. However, County Seat's product line is being expanded to capture additional sales in the growing fashion areas of tops for women and girls and shirts for men and boys.

ShopKo is also expanding. We plan to spend $20 million to build four new ShopKo general merchandise stores and to remodel and expand 8 of the 21 stores now in operation. Three of the four new stores will be located in Beloit, La Crosse and Eau Claire, WI. A location for the fourth store has not yet been determined.

ShopKo's newest stores will be larger than most existing units with over 90,000 sq. ft. Two new stores were opened last November with the full range of ShopKo's merchandising strategies, including home improvement centers, pharmacies and fabric and craft centers.

ShopKo continues to make progress following its basic objective to be the dominant general merchandise retailer in the communities where it operates.

Questions and Answers

(Answers by Jack J. Crocker, chairman, James Slovick, senior vice president, Homer Childs, vice president and secretary.)

Q. Because so much of Super Valu's sales involve products that women buy, have you considered or are you considering having a woman on the Board of Directors?

A. There has been considerable discussion about new directors. We keep in mind that it is our obligation that when we make these selections, we choose directors who will be of greatest help to the organization. We are sensitive to the question of placing a woman on the Board of Directors and are considering the possibility, but we can assure you of nothing at this point.

Changes in Stockholders' Equity

Super Valu Stores, Inc. and Consolidated Subsidiaries

	Common Stock		Capital in excess of par value	Retained earnings
	Shares	Amount		
BALANCES AT FEBRUARY 26, 1977	8,922,286	$8,922,000	$15,468,000	$76,900,000
Sale of common stock under option plans, including $50,000 of income tax benefit resulting from options sold under non-qualified plans	19,505	20,000	260,000	
Net earnings				30,106,000
Cash dividends declared on common stock—$.81 per share				(7,236,000)
BALANCES AT FEBRUARY 25, 1978	8,941,791	8,942,000	15,728,000	99,770,000
Sale of common stock under option plans, including $25,000 of income tax benefit resulting from options sold under non-qualified plans	61,509	61,000	530,000	
Net earnings				8,972,000
Cash dividends declared on common stock $ 2150 per share				(1,942,000)
BALANCES AT JUNE 17, 1978	9,003,300	$9,003,000	$16,258,000	$106,800,000

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

■ A summary of significant accounting policies followed by the Company is included in its fiscal 1978 annual report to shareholders and its annual report to the Securities and Exchange Commission on Form 10-K. The Company follows these same policies in the preparation of its interim reports to shareholders. The first quarter balances of fiscal 1978 have been restated to reflect the retroactive adoption in the third quarter of fiscal 1978, of the requirements of the Financial Accounting Standards Board Statement No. 13, Accounting for Leases. The fiscal 1978 quarter balances have also been restated to reflect a change to the LIFO method of determining cost for additional wholesale food inventory categories. As a result of these changes, net earnings for the first quarter of 1978 were reduced $151,000 ($.01 per share).

■ The Company uses the last-in, first-out method (LIFO) for determining cost for a major portion of wholesale food inventories (62.8% for fiscal 1979 and fiscal 1978 of the total current cost of consolidated inventories). If the first-in, first-out method (FIFO) had been used to determine cost of inventories for which the LIFO method is used, the Company's inventories would have been $17,312,000 higher at

June 17, 1978 and $14,041,000 higher at June 18, 1977.

■ Net earnings per share are computed by dividing net earnings by the weighted average number of common shares outstanding after giving effect to the 2-for-1 Common Stock split described below. Cash dividends set forth on the statement of earnings have also been adjusted to give effect to the Common Stock split. Outstanding stock options have no material effect on earnings per share.

■ Stockholders, at the June 27, 1978 annual stockholders meeting approved an increase in the authorized number of common shares from 15,000,000 to 30,000,000 shares and the adoption of a Stock Appreciation Rights Plan. The Board of Directors at their June 27, 1978 meeting also approved a 2-for-1 Common Stock split to be effected in the form of a 100% stock dividend to stockholders of record on July 11, 1978. The 2-for-1 Common Stock split is not reflected in stockholders' equity because it was effected subsequent to the end of the first quarter.

■ Beginning the second quarter of fiscal 1978, the Company purchased the business of Charley Brothers Company, a wholesale grocery firm headquartered near Pittsburgh. The results of Charley Brothers Company operations since the effective date of the purchase are included in the operating results of fiscal 1978. The pro-forma effect of the inclusion of the operations of Charley Brothers Company since the beginning of the first quarter for fiscal 1978 and 1979 are presented below. This pro-forma presentation considers amortization of the intangible assets purchased and for periods prior to the purchase, an assumed interest cost relating to cash used to effect the purchase.

	First Quarter (16 Weeks) Ended	
	June 17, 1978	**June 18, 1977 (Restated)**
Net Sales	**$875,608,000**	$764,208,000
Net Earnings	**$ 8,972,000**	$ 8,739,000
Net Earnings per Share	**$.50**	$.49

■ Effective February 25, 1978 the Company disposed of the operations of its Harrison House food service division by selling three of its locations for cash totaling $9,358,000 net of liabilities retained and discontinuing operations of the fourth one. Harrison House sales for the first quarter of fiscal 1978 were $26,540,000 representing about 3.9% of Super Valu's total sales for the quarter. The results of operations for Harrison House for the first quarter of fiscal 1978 were not significant to the quarter.

Annual Meeting of Shareholders

The Company's Annual Meeting of Shareholders was held Tuesday, June 27, 1978, in the IDS Center Conference Theater, Minneapolis, with 250 persons in attendance.

Four proposals were submitted to shareholders for approval and were passed:

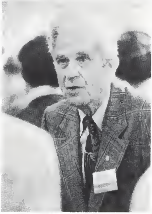
1) Nominees for re-election to the Board of Directors as contained in the proxy statement were approved as follows: William S. Bailey, Morris Lewis, Jr., John E. Morrissey, Albert R. Whitman and James T. Wyman.

2) Shareholders voted to amend Super Valu's certificate of incorporation increasing the authorized common stock from 15 to 30 million shares.

3) The Super Valu Stores, Inc. 1978 Stock Appreciation Rights Plan for employees was ratified by shareholders.

4) The appointment of Touche Ross & Co. as Super Valu's independent public accountants was ratified.

A brief ceremony during the 1978 Annual Shareholders Meeting recognized Homer Childs, vice president and secretary to the Board of Directors, for 26 years of loyal service to the company.



Ferris Kalton

Q. One of your comments was that Super Valu plans to spend $15 million listed as "other" in the capital budget discussion. Can you comment on how the $15 million will be spent?

A. A portion of those funds has been set aside for a new corporate office building that is scheduled to be built starting this year. The remainder is a general contingency fund for projects which emerge during the year which were not originally budgeted.

Q. What are your plans for geographical expansion of Super Valu's food business?

A. Super Valu might be considered to be in two categories, corporate stores and the independent stores we serve. The majority of the company's business is with independent retail operators with whom we are always seeking to expand our customer base. The greatest recent expansion was the acquisition of Charley Brothers Co. just outside of Pittsburgh, which expanded our territory to the east. In the wholesale food business it is our current belief that the most practical way to grow geographically is through acquisitions and mergers. It is difficult to start from scratch and build a new warehouse, stock and equip it and capture new business. The corporate stores we operate are located in Fargo/Moorhead and in the state of Mississippi. We do not foresee significant growth in Super Valu's involvement in corporate retail food stores.

Mrs. Thomas G. Harrison (left) and Mrs. Paul Gerot

Q. Do you have any acquisitions or mergers planned?

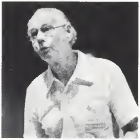
A. We frequently talk about mergers and acquisitions with other companies and I believe that sometime within the next year or two we may have another acquisition. However, we see little reason to acquire a new business just for the sake of making the company larger.

Q. I have heard that Grocery Wagon is part of Super Valu. Is that true?

A. The Grocery Wagon (a shop by telephone business with home delivery service) is a customer of Super Valu; we have no ownership position and therefore it is not a part of our company.

Q. Why don't you have any food retailers on the Board of Directors? Some of these retailers are among the smartest men in the business.

A. When we listed our stock on the New York Stock Exchange, one of the restrictions placed upon us was that we would not have a customer on the Board of Directors because of potential conflict of interest.



Horace McLaughlin

SUPER VALU

Super Valu Stores, Inc.
101 Jefferson Avenue South
Hopkins, Minnesota 55343
(612) 932-4444

FIRST CLASS

Childs and his wife, Charlotte, were presented mementoes of the occasion.

Comments given at the meeting by Jack J. Crocker, chairman and chief executive office, are summarized in this report. A presentation to shareholders by James L. Slovick, senior vice president—finance and treasurer follows.

James L. Slovick
Senior Vice President—Finance and Treasurer

Good morning, everyone.

In February, Super Valu completed another solid year of operating results.

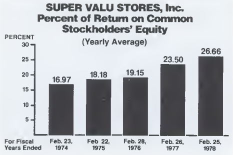
Sales for the current year of $2.6 billion were 22 per cent ahead of the $2.1 billion that Super Valu reported for fiscal 1977. This represents the 24th consecutive year of increases in sales. In tracing the history of our sales performance, I went back to the year 1954 when Super Valu changed its corporate name from Winston & Newell. Sales for that year, 1954, were $90 million. Over the 24-year period, Super Valu has compounded its sales at the rate of 15 per cent, which is remarkable.

For fiscal 1978, after-tax earnings increased 38 per cent from $21.8 million to $30.1 million. Earnings increased at a faster rate than sales did, primarily because of good expense control and also because of the higher net margins that are generated by our non-food operations of County Seat and ShopKo.

Earnings per share also increased 38 per cent from $1.23 to $1.69 after giving effect to the 2-for-1 stock split discussed in notes to financial statements; this represents the eighth consecutive year of increases in earnings and earnings per share for Super Valu. I should point out that the earnings gain would have been about 5 cents per share higher, except that we adopted two new accounting conventions. In the first instance, we adopted FASB #13, which calls for the capitalization of capital leases, which had the effect of reducing our earnings 3 cents per share. Additionally, we adopted two new LIFO categories for valuing the inventory of our wholesale food divisions, which reduced our earnings per share an additional 3 cents.

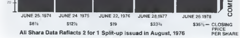
Shifting to the balance sheet, we see the results of a fine performance here as well. Our total debt, which includes leases, did not grow, but stayed constant at $137 million at each year end. While our debt did not increase, our stockholders' equity went up by $23 million, from $101 million to $124 million. The $23 million addition is the difference between our earnings of $30 million and our dividend payments of $7 million. This has had the effect of improving our debt to total capital ratios, which means that we have a stronger balance sheet along with a good earnings statement.

Super Valu's return on equity increased last year to 26.66 per cent, almost 27 per cent. This is a very high rate of return for our stockholders, and puts Super Valu in the number one position when compared with the other top five firms in the food wholesaling industry.



The market value of Super Valu's common stock has increased four-fold since our shareholders' meeting in 1974.

The market value of the shares outstanding on June 25, 1974, was $68 million and has risen to $272 million.



The combined market value of all of Super Valu's common stock as of June 26, 1978, was $315 million, which includes the market value of the 1.2 million new shares that were issued in a public offering in December 1975.

Leaving history for a moment and turning to the future, I would like to explain Super Valu's capital spending plans for fiscal 1979. For this new year, the company plans to spend $81 million, most of which will involve the cash purchase of fixed assets and equipment.

If we take these spending plans of $81 million and break them down by line of business, we find that we will devote $29 million to our wholesale food activities, which includes significant additions and remodeling projects to our existing warehouses in Anniston, AL, Bismarck, ND, Green Bay, WI, and also our facility in Minneapolis. In addition we are presently constructing a new replacement facility of 325,000 sq. ft. in Fargo, ND.

EXPANSION PLANS FOR FISCAL 1979

Wholesale Food Activities	**$29 Million**
County Seat	**17 Million**
ShopKo	**20 Million**
Other Projects	**15 Million**
TOTAL	**$81 Million**

Approximately $17 million has been budgeted for County Seat activities, including the opening of 35 new County Seat leisure wear stores and also to equip all its stores with new electronic cash registers. These electronic cash registers record point of sale information valuable in inventory control and product purchasing. The system will enable County Seat to pinpoint fast moving products and change in-stock positions to take advantage of fashion trends.

County Seat continues with its basic goal of being the complete Levi's store with strong positions in the most popular items—denim and corduroy jeans. However, County Seat's product line is being expanded to capture additional sales in the growing fashion areas of tops for women and girls and shirts for men and boys.

ShopKo is also expanding. We plan to spend $20 million to build four new ShopKo general merchandise stores and to remodel and expand 8 of the 21 stores now in operation. Three of the four new stores will be located in Beloit, La Crosse and Eau Claire, WI. A location for the fourth store has not yet been determined.

ShopKo's newest stores will be larger than most existing units with over 90,000 sq. ft. Two new stores were opened last November with the full range of ShopKo's merchandising strategies, including home improvement centers, pharmacies and fabric and craft centers.

ShopKo continues to make progress following its basic objective to be the dominant general merchandise retailer in the communities where it operates.

Questions and Answers

(Answers by Jack J. Crocker, chairman, James Slovick, senior vice president, Homer Childs, vice president and secretary.)

Q. Because so much of Super Valu's sales involve products that women buy, have you considered or are you considering having a woman on the Board of Directors?

A. There has been considerable discussion about new directors. We keep in mind that it is our obligation that when we make these selections, we choose directors who will be of greatest help to the organization. We are sensitive to the question of placing a woman on the Board of Directors and are considering the possibility, but we can assure you of nothing at this point.

Changes in Stockholders' Equity

Super Valu Stores, Inc. and Consolidated Subsidiaries

	Common Stock Shares	Common Stock Amount	Capital in excess of par value	Retained earnings
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Sale of common stock under option plans, including $50,000 of income tax benefit resulting from options sold under non-qualified plans.	19,505	20,000	260,000	
Net earnings.				30,106,000
Cash dividends declared on common stock—$.81 per share.				(7,236,000)
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NOTES *(Continued)*

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	First Quarter (16 Weeks) Ended	
	June 17, 1978	**June 18, 1977 (Restated)**
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A brief ceremony during the 1978 Annual Shareholders Meeting recognized Homer Childs, vice president and secretary to the Board of Directors, for 26 years of loyal service to the company.

Balance Sheets

Super Valu Stores, Inc. and Consolidated Subsidiaries

ASSETS	June 17, 1978	June 18, 1977 (Restated)
CURRENT ASSETS:		
Cash (including temporary investments of $30,050,000 in 1978 and $6,068,000 in 1977)	[illegible]	$ 11,667,000
Receivables, less allowance for losses of $1,675,000 in 1978 and $2,299,000 in 1977	[illegible]	29,175,000
Inventories	[illegible]	153,500,000
Supplies and prepaid expenses	[illegible]	3,541,000
Deferred income tax benefits	[illegible]	3,255,000
Property under development	[illegible]	590,000
TOTAL CURRENT ASSETS	[illegible]	201,728,000
OTHER ASSETS AND DEFERRED CHARGES	[illegible]	9,279,000
INVESTMENT IN AND ADVANCES TO UNCONSOLIDATED FINANCE SUBSIDIARY	[illegible]	7,664,000
DEFERRED INCOME TAX BENEFITS	[illegible]	2,692,000
PROPERTY, PLANT AND EQUIPMENT, at cost:		
Owned property, plant and equipment, net	[illegible]	61,629,000
Leased assets under capital leases, net	[illegible]	56,573,000
	[illegible]	118,202,000
	[illegible]	$339,565,000

LIABILITIES AND STOCKHOLDERS' EQUITY	June 17, 1978	June 18, 1977 (Restated)
CURRENT LIABILITIES:		
Accounts payable	[illegible]	$102,297,000
Checks outstanding, net	[illegible]	
Due Charley Brothers Co.		19,621,000
Contributions under retirement plans	[illegible]	2,230,000
Accrued compensation	[illegible]	2,746,000
Property, payroll and sales taxes	[illegible]	4,562,000
Federal and state income taxes	[illegible]	3,887,000
Payments due within one year on long-term notes payable	[illegible]	79,000
Payments due within one year under capital leases	[illegible]	3,906,000
TOTAL CURRENT LIABILITIES	[illegible]	139,328,000
LONG-TERM NOTES PAYABLE	[illegible]	28,155,000
OBLIGATIONS UNDER CAPITAL LEASES	[illegible]	63,664,000
OTHER LIABILITIES	[illegible]	1,216,000
STOCKHOLDERS' EQUITY:		
Common stock	[illegible]	8,930,000
Capital in excess of par value	[illegible]	15,549,000
Retained earnings	[illegible]	82,723,000
TOTAL STOCKHOLDERS' EQUITY	[illegible]	107,202,000
	[illegible]	$339,565,000

See notes to financial statements.

Changes in Financial Position

Super Valu Stores, Inc. and Consolidated Subsidiaries

	First Quarter (16 Weeks) Ended	
	June 17, 1978	June 18, 1977 (Restated)
SOURCE OF FUNDS:		
Net earnings	$ 8,972,000	$ 7,294,000
Charges not involving use of funds:		
Depreciation and amortization—property and intangibles	5,178,000	3,564,000
Amortization of capital leases	1,384,000	1,438,000
Deferred income taxes	(49,000)	(200,000)
	15,485,000	12,096,000
Less equity in net earnings of unconsolidated finance subsidiary	321,000	223,000
Working capital provided from operations	15,164,000	11,873,000
Sale of common stock under option plans	591,000	89,000
Disposals of property, plant and equipment	991,000	496,000
Disposals of leased assets	71,000	2,787,000
(Increase) decrease in advances to unconsolidated finance subsidiary	(2,660,000)	154,000
Additional long-term borrowings	2,078,000	
Additional long-term obligations under capital leases	343,000	640,000
Other	(65,000)	792,000
	16,513,000	16,831,000
APPLICATION OF FUNDS:		
Property, plant and equipment additions	17,105,000	6,206,000
Leased asset additions	343,000	640,000
Reduction of long-term notes payable	52,000	27,000
Reduction in obligations under capital leases	1,448,000	4,427,000
Cash dividends declared	1,942,000	1,472,000
Purchase of assets of the Charley Brothers Co.:		
Property, plant and equipment		4,565,000
Intangible assets		5,678,000
	20,890,000	23,015,000
DECREASE IN WORKING CAPITAL	$ (4,377,000)	$ (6,184,000)
SUMMARY OF CHANGES IN WORKING CAPITAL:		
Increase (decrease) in current assets:		
Cash and temporary investments	$ 1,532,000	$(35,881,000)
Receivables	(10,760,000)	(128,000)
Inventories	2,683,000	17,342,000
Properties under development	18,000	590,000
Deferred income tax benefits	(239,000)	79,000
Other	1,212,000	745,000
Decrease (increase) in current liabilities:		
Accounts payable	4,113,000	(1,648,000)
Checks outstanding, net	(11,959,000)	18,291,000
Due Charley Brothers Co.		(19,621,000)
Payments due within one year under capital leases	17,000	178,000
Other	9,006,000	4,491,000
Net working capital acquired from Charley Brothers Co.		9,378,000
Decrease in working capital	(4,377,000)	(6,184,000)
Working capital, beginning of year	60,492,000	68,584,000
WORKING CAPITAL, END OF QUARTER	$56,115,000	$62,400,000

See notes to financial statements.

five years. During this time, Super Valu sales climbed from $1.4 billion in 1974 to $2.6 billion, and earnings per share, after giving effect to the 2-for-1 stock split discussed below, rose from $.60 in 1974 to $1.69 in 1978.

FIVE YEAR SALES AND EARNINGS PER SHARE DATA

FISCAL YEAR ENDED	SALES (IN BILLIONS)	% INCREASE FROM PRIOR YEAR	EARNINGS PER SHARE	% INCREASE FROM PRIOR YEAR
1974	$1.4	19	$ .60	9
1975	1.6	13	.72	21
1976	1.8	11	.88	22
1977	2.1	17	1.23	40
1978	2.6	22	1.69	38
5 YEAR COMPOUNOEO		16%		25%

Net profit on sales has risen to 1.2 per cent after taxes, while shareholder return on equity has climbed to the current year's level of 26.7 per cent.

We were pleased to announce at the meeting that the board of directors had declared a 2-for-1 stock split to be effected as a 100 per cent stock dividend with a record date of July 11, 1978, payable August 7, 1978. It has been your management's long-range plan to increase the number of shareholders in order that we might also increase the liquidity, marketability and depth of our common stock.

I also reported to shareholders that the board had declared a quarterly cash dividend of 13½ cents per share payable September 15, 1978, to shareholders of record August 29, 1978. This newly increased dividend is equal to 54 cents per share, a 26 per cent increase over the prior annual rate of 43 cents per share on a post-split basis.

This is the fifth time the dividend rate has been increased in the past 4½ years. It has gone from 20 cents in 1974 to the current dividend of 54 cents, an increase of 170 per cent. The increase is consistent with the increased level of earnings and the company's intention to increase the cash dividend in line with earnings performance.

The following pages of this report include the presentations made at the annual meeting as well as a summary of questions and answers. I hope this report will help you stay abreast of company activities and progress. Thank you for your continuing interest and support.

Sincerely,

Jack J. Crocker

Jack J. Crocker
Chairman and Chief Executive Officer

Statement of Earnings

Super Valu Stores, Inc. and Consolidated Subsidiaries

	First Quarter (16 Weeks) Ended June 17, 1978	First Quarter (16 Weeks) Ended June 18, 1977 (Restated)	% Increase (Decrease)
NET SALES	[illegible]	$686,329,000	27.6
COSTS AND EXPENSES:			
Cost of sales	[illegible]	632,598,000	28.6
Selling and administrative expenses	[illegible]	38,057,000	13.2
Interest and other debt expenses	[illegible]	2,202,000	(4.5)
	[illegible]	672,857,000	27.6
EARNINGS BEFORE INCOME TAXES	[illegible]	13,472,000	25.8
PROVISION FOR INCOME TAXES:			
Currently payable (includes investment tax credit of $480,000 for 1978 and 1977)	[illegible]	6,231,000	
Deferred	[illegible]	170,000	
	[illegible]	6,401,000	29.7
NET EARNINGS OF SUPER VALU STORES, INC. AND CONSOLIDATED SUBSIDIARIES	[illegible]	7,071,000	22.3
NET EARNINGS OF UNCONSOLIDATED FINANCE SUBSIDIARY	[illegible]	223,000	43.9
NET EARNINGS	[illegible]	$ 7,294,000	23.0
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING	[illegible]	17,850,000	.7
NET EARNINGS PER COMMON SHARE	[illegible]	$.41	22.0
DIVIDENDS DECLARED PER COMMON SHARE	[illegible]	$.0825	30.3

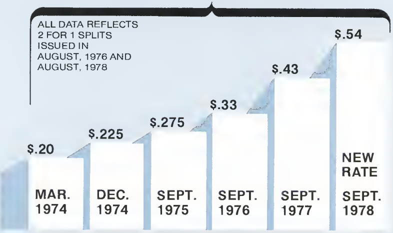
See notes to financial statements.

SuperValu First Quarter Report

16 Weeks Ended June 17, 1978 And Report On Annual Shareholders Meeting June 27, 1978

Summary of Annual Dividend Rates per Common Share

Increase of $.34 or 170% over a 4½ year period



Increase of
$.11 or 26%
Over $.43 Rate

To Our Shareholders

At the annual meeting of shareholders June 27, I was pleased to report some significant achievements by your company for the first quarter.

During the 16 weeks ended June 17, Super Valu had earnings of $8,972,000, an increase of 23 per cent over the $7,294,000 reported for the comparable period last year. Sales for the first quarter were $876 million, which was 28 per cent higher than the $686 million in the period a year ago.

The volume of wholesale food sales was above expectations. Compared with a year ago—not including Charley Brothers division, which we acquired last June—wholesale food sales were up 18 per cent. This was a most favorable increase.

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First quarter earnings would have been approximately 10 per cent higher except for costs involved in the wholesale food Extra Effort sales program, the absence of Harrison House earnings (sold at the beginning of the year) and the charge to earnings for the new Stock Appreciation Rights plan.

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Balance Sheets

Super Valu Stores, Inc. and Consolidated Subsidiaries

ASSETS	**June 17, 1978**	**June 18, 1977 (Restated)**
CURRENT ASSETS:		
Cash (including temporary investments of $30,050,000 in 1978 and $6,068,000 in 1977)	[illegible]	$ 11,667,000
Receivables, less allowance for losses of $1,675,000 in 1978 and $2,299,000 in 1977	[illegible]	29,175,000
Inventories	[illegible]	153,500,000
Supplies and prepaid expenses	[illegible]	3,541,000
Deferred income tax benefits	[illegible]	3,255,000
Property under development	[illegible]	590,000
TOTAL CURRENT ASSETS	[illegible]	201,728,000
OTHER ASSETS AND DEFERRED CHARGES	[illegible]	9,279,000
INVESTMENT IN AND ADVANCES TO UNCONSOLIDATED FINANCE SUBSIDIARY	[illegible]	7,664,000
DEFERRED INCOME TAX BENEFITS	[illegible]	2,692,000
PROPERTY, PLANT AND EQUIPMENT, at cost:		
Owned property, plant and equipment, net	[illegible]	61,629,000
Leased assets under capital leases, net	[illegible]	56,573,000
	[illegible]	118,202,000
	[illegible]	$339,565,000

LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	[illegible]	$102,297,000
Checks outstanding, net	[illegible]	
Due Charley Brothers Co.		19,621,000
Contributions under retirement plans	[illegible]	2,230,000
Accrued compensation	[illegible]	2,746,000
Property, payroll and sales taxes	[illegible]	4,562,000
Federal and state income taxes	[illegible]	3,887,000
Payments due within one year on long-term notes payable	[illegible]	79,000
Payments due within one year under capital leases	[illegible]	3,906,000
TOTAL CURRENT LIABILITIES	[illegible]	139,328,000
LONG-TERM NOTES PAYABLE	[illegible]	28,155,000
OBLIGATIONS UNDER CAPITAL LEASES	[illegible]	63,664,000
OTHER LIABILITIES	[illegible]	1,216,000
STOCKHOLDERS' EQUITY:		
Common stock	[illegible]	8,930,000
Capital in excess of par value	[illegible]	15,549,000
Retained earnings	[illegible]	82,723,000
TOTAL STOCKHOLDERS' EQUITY	[illegible]	107,202,000
	[illegible]	$339,565,000

See notes to financial statements.

Changes in Financial Position

Super Valu Stores, Inc. and Consolidated Subsidiaries

	First Quarter (16 Weeks) Ended	
	June 17, 1978	June 18, 1977 (Restated)
SOURCE OF FUNDS:		
Net earnings	$ 8,972,000	$ 7,294,000
Charges not involving use of funds:		
Depreciation and amortization—property and intangibles	5,178,000	3,564,000
Amortization of capital leases	1,384,000	1,438,000
Deferred income taxes	(49,000)	(200,000)
	15,485,000	12,096,000
Less equity in net earnings of unconsolidated finance subsidiary	321,000	223,000
Working capital provided from operations	15,164,000	11,873,000
Sale of common stock under option plans	591,000	89,000
Disposals of property, plant and equipment	991,000	496,000
Disposals of leased assets	71,000	2,787,000
(Increase) decrease in advances to unconsolidated finance subsidiary	(2,660,000)	154,000
Additional long-term borrowings	2,078,000	
Additional long-term obligations under capital leases	343,000	640,000
Other	(65,000)	792,000
	16,513,000	16,831,000
APPLICATION OF FUNDS:		
Property, plant and equipment additions	17,105,000	6,206,000
Leased asset additions	343,000	640,000
Reduction of long-term notes payable	52,000	27,000
Reduction in obligations under capital leases	1,448,000	4,427,000
Cash dividends declared	1,942,000	1,472,000
Purchase of assets of the Charley Brothers Co.:		
Property, plant and equipment		4,565,000
Intangible assets		5,678,000
	20,890,000	23,015,000
DECREASE IN WORKING CAPITAL	$ (4,377,000)	$ (6,184,000)
SUMMARY OF CHANGES IN WORKING CAPITAL:		
Increase (decrease) in current assets:		
Cash and temporary investments	$ 1,532,000	$(35,881,000)
Receivables	(10,760,000)	(128,000)
Inventories	2,683,000	17,342,000
Properties under development	18,000	590,000
Deferred income tax benefits	(239,000)	79,000
Other	1,212,000	745,000
Decrease (increase) in current liabilities:		
Accounts payable	4,113,000	(1,648,000)
Checks outstanding, net	(11,959,000)	18,291,000
Due Charley Brothers Co.		(19,621,000)
Payments due within one year under capital leases	17,000	178,000
Other	9,006,000	4,491,000
Net working capital acquired from Charley Brothers Co.		9,378,000
Decrease in working capital	(4,377,000)	(6,184,000)
Working capital, beginning of year	60,492,000	68,584,000
WORKING CAPITAL, END OF QUARTER	$56,115,000	$62,400,000

See notes to financial statements.

five years. During this time, Super Valu sales climbed from $1.4 billion in 1974 to $2.6 billion, and earnings per share, after giving effect to the 2-for-1 stock split discussed below, rose from $.60 in 1974 to $1.69 in 1978.

FIVE YEAR SALES AND EARNINGS PER SHARE DATA

FISCAL YEAR ENDED	SALES (IN BILLIONS)	% INCREASE FROM PRIOR YEAR	EARNINGS PER SHARE	% INCREASE FROM PRIOR YEAR
1974	$1.4	19	$ .60	9
1975	1.6	13	.72	21
1976	1.8	11	.88	22
1977	2.1	17	1.23	40
1978	2.6	22	1.69	38
5 YEAR COMPOUNDED		16%		25%

Net profit on sales has risen to 1.2 per cent after taxes, while shareholder return on equity has climbed to the current year's level of 26.7 per cent.

We were pleased to announce at the meeting that the board of directors had declared a 2-for-1 stock split to be effected as a 100 per cent stock dividend with a record date of July 11, 1978, payable August 7, 1978. It has been your management's long-range plan to increase the number of shareholders in order that we might also increase the liquidity, marketability and depth of our common stock.

I also reported to shareholders that the board had declared a quarterly cash dividend of 13½ cents per share payable September 15, 1978, to shareholders of record August 29, 1978. This newly increased dividend is equal to 54 cents per share, a 26 per cent increase over the prior annual rate of 43 cents per share on a post-split basis.

This is the fifth time the dividend rate has been increased in the past 4½ years. It has gone from 20 cents in 1974 to the current dividend of 54 cents, an increase of 170 per cent. The increase is consistent with the increased level of earnings and the company's intention to increase the cash dividend in line with earnings performance.

The following pages of this report include the presentations made at the annual meeting as well as a summary of questions and answers. I hope this report will help you stay abreast of company activities and progress. Thank you for your continuing interest and support.

Sincerely,

Jack J. Crocker
Chairman and Chief Executive Officer

Statement of Earnings

Super Valu Stores, Inc. and Consolidated Subsidiaries

	First Quarter (16 Weeks) Ended		
	June 17, 1978	June 18, 1977 (Restated)	% Increase (Decrease)
NET SALES	[illegible]	$686,329,000	27.6
COSTS AND EXPENSES:			
Cost of sales	[illegible]	632,598,000	28.6
Selling and administrative expenses	[illegible]	38,057,000	13.2
Interest and other debt expenses	[illegible]	2,202,000	(4.5)
	[illegible]	672,857,000	27.6
EARNINGS BEFORE INCOME TAXES	[illegible]	13,472,000	25.8
PROVISION FOR INCOME TAXES:			
Currently payable (includes investment tax credit of $480,000 for 1978 and 1977)	[illegible]	6,231,000	
Deferred	[illegible]	170,000	
	[illegible]	6,401,000	29.7
NET EARNINGS OF SUPER VALU STORES, INC. AND CONSOLIDATED SUBSIDIARIES	[illegible]	7,071,000	22.3
NET EARNINGS OF UNCONSOLIDATED FINANCE SUBSIDIARY	[illegible]	223,000	43.9
NET EARNINGS	[illegible]	$ 7,294,000	23.0
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING	[illegible]	17,850,000	.7
NET EARNINGS PER COMMON SHARE	[illegible]	$.41	22.0
DIVIDENDS DECLARED PER COMMON SHARE	[illegible]	$.0825	30.3

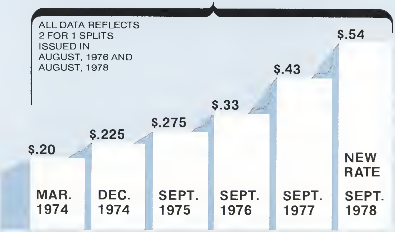
See notes to financial statements.

SuperValu First Quarter Report

16 Weeks Ended June 17, 1978 And Report On Annual Shareholders Meeting June 27, 1978

Summary of Annual Dividend Rates per Common Share

Increase of $.34 or 170% over a 4½ year period



Increase of
$.11 or 26%
Over $.43 Rate

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Both ShopKo and County Seat retail operations showed sales increases in excess of 25 per cent. Wholesale food and ShopKo earnings were up sharply, while County Seat earnings were modestly below last year.

First quarter earnings would have been approximately 10 per cent higher except for costs involved in the wholesale food Extra Effort sales program, the absence of Harrison House earnings (sold at the beginning of the year) and the charge to earnings for the new Stock Appreciation Rights plan.

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Super Valu Annual Report

Our Philosophy

The management philosophy of Super Valu is and will continue to be a total commitment to serving customers more effectively than anyone else could serve them. We see the achievement of this meaningful goal as a continuing and overriding effort from which every corporate activity must evolve.....

Financial Highlights

Super Valu Stores, Inc. and Consolidated Subsidiaries

(In thousands, except per share and percentage figures)	Fiscal year (52 weeks) ended February 25, 1978	February 26, 1977	Percent Increase
Net sales	**$2,593,501**	$2,133,549	21.6
Net earnings	**30,106**	21,836	37.9
Net earnings per common share	**3.37**	2.45	37.6
Common shares outstanding (end of year)	**8,942**	8,922	.2
Dividends declared per common share	**.81**	.6325	28.1
Stockholders' equity per share of common stock (end of year)	**13.92**	11.35	22.6
Stockholders' equity	**124,440**	101,290	22.9
Percent return on —stockholders' equity (yearly average)	**26.66**	23.50	13.4
—net capital employed including the capitalized value of all financing and operating leases	**11.90**	9.66	23.2

Who We Are

Super Valu Stores, Inc., with headquarters in suburban Minneapolis, is the largest wholesale food company in the United States. At the close of its fiscal year on February 25, 1978, Super Valu served 1,971 retail food stores, including 107 company-owned stores.

Deliveries to these stores are made principally from the Company's 11 distribution centers. Super Valu's retail customers are located in 24 states.

While wholesale food distribution is the Company's primary business, non-food retail operations continue to grow.

Super Valu entered the general merchandising business in 1971 with the acquisition of ShopKo Stores, Inc., a department store chain based in Green Bay, Wisconsin. Today, ShopKo operates 21 stores.

The Company's other non-food business, the County Seat Stores, Inc., opened 33 casual apparel stores the past year, bringing the total to 193 stores in 33 states. County Seat has distribution centers in suburban Minneapolis, Atlanta and Dallas.

Super Valu continues to operate Preferred Products, Inc., a food processing and packaging facility; Risk Planners, Inc., insurance agency; Planmark, architectural design and store engineering service, and Studio 70, interior design studio.

Contents

To Our Shareholders

In the spring of 1973 the board elected me chief executive officer of Super Valu. This is the fifth Annual Report to shareholders since that time. For that reason, I would like to review with you the progress of this five-year period and then outline our thoughts for the future.

You probably have read reports that our sales for this past year (ending February 25, 1978) totaled $2,593,501,000—an increase of 22% over the previous year, and that net profits of $30,106,000 represented a 38% increase over the previous year. For the past five years, our record has been as follows:

FIVE YEAR SALES AND EARNINGS PER SHARE DATA

Fiscal Year Ended	Sales (In Billions)	Increase From Prior Year	Earnings Per Share	Increase From Prior Year
1974	$1.4	19%	$1.19	9%
1975	1.6	13%	1.44	21%
1976	1.8	11%	1.75	22%
1977	2.1	17%	2.45	40%
1978	2.6	22%	3.37	38%
5 Year Compounded		16%		26%

We are especially pleased with this progress, since we not only have aggressively pursued additional activities for your company, but we also have closed some that were marginal. We no longer operate fabric stores. We are out of the equipment leasing business. We have sold the institutional food service division. We have consolidated the small Parade stores into our ShopKo division. We no longer operate many retail food stores except in Mississippi and Fargo, North Dakota.

During this same period, we have changed our accounting procedures for almost all wholesale food inventories from FIFO (First-in, First-out) to LIFO (Last-in, First-out). If this change to LIFO had not been made, current inventories would be approximately $17 million more than that amount shown on the balance sheet. This has resulted in a conservative statement of our profits during this time period.

During this same five-year period, we have entered the retail leisure wear business with the County Seat stores; we have acquired an outstanding wholesale food company (Charley Brothers in the state of Pennsylvania); and we have broadened the lines of services and merchandise throughout the wholesale food operations. Net profit on sales has risen to 1.2% after taxes, and stockholders return on equity has risen steadily to its current year's level of 26.7%. Because of this growth, approximately 3,600 new jobs have been created during this time.

It is not entirely possible for management to pinpoint all of the reasons for this success story. I believe it begins with management's clear understanding of the organization's responsibilities to the customers and the communities it serves. Your management is strongly committed to fulfill these responsibilities. The management of Super Valu believes strongly that it must serve its customers better than anyone else can serve them. Your company's philosophy is very basic:

"Throughout Super Valu, we shall serve our customers more effectively than anyone else can serve them."

We believe that only through this continuing commitment can we assure ourselves of the continuing profitable growth that we have experienced in the past. Our thinking goes like this:

1. Customers are the best buyers in the world and will always buy from that source which does the best job for them.

2. Since this is true, the only way for any business to dominate a market is to serve the customer better than anyone else.

3. By having a commanding share of market a business can operate with the lowest capital and operating expenses, remain highly competitive and still realize a satisfactory return on its capital investment.

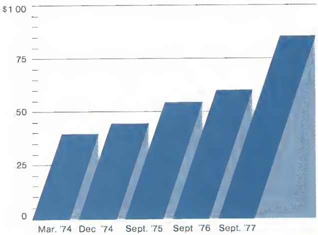
We shall continue to increase our share of each market, to minimize our capital invested in achieving that growth and to scrutinize all expenses. Through the diligent pursuit of such objectives, we shall remain competitive with our prices and operate at optimum profits. When a business can operate at a net profit of only one penny on each dollar of sales, and at the same time turn its capital to earn 26.7% on equity, that business is benefiting the customer with greater value, the employee with security and opportunity and the shareholder with a good return on his investment. Super Valu is such a company.

Management's major role at Super Valu is to coordinate our efforts so we can maintain satisfactory growth.

The following chart shows the increases in dividends for the four years since March, 1974.

SUMMARY OF ANNUAL DIVIDEND RATES PER COMMON SHARE

All data reflects 2 for 1 split issued Aug. 1976



This is an outstanding record of continued increases and we know that you are pleased with it. Because we have been able to reinvest a good portion of the retained earnings each year, we have been able to increase dividends in succeeding years.

We might liken it to money in a savings account in the bank. If you leave the accrued interest in your account each year, then each subsequent year that interest becomes principal, and it, too, earns interest. The compounding effect produces much greater earnings than would result if all of your interest was withdrawn each year. If Super Valu were to pay most of its earnings in dividends, then the opportunity to increase earnings and dividends each year would be greatly diminished.

Your company tries to carry on effective communications with its many important constituencies, including the Teamsters' Union, with whom we have most of our labor contracts. The association between a company's management and union leaders can never be totally compatible. Proof of this is in the fact that we experienced two strikes during the past year. However, we have gained a better understanding of each other over a period of time, and a "faith in the integrity" of each other. People do not necessarily have to agree on issues in order to have mutual respect. I do believe that such a relationship exists between the Teamsters and your management.

In a year of mostly good news, it is with deep personal sadness that I mention the death of Milton Perlmutter, who served as a director of Super Valu for six years. Last December I was privileged to give the testimonial for Mr. Perlmutter before approximately 2,000 people at the Waldorf Astoria Hotel in New York when he received the Prime Minister's Medallion, the highest civilian award given by the State of Israel. I could write much about this man but would rather summarize my feelings that he was a man who lived those principles that other men admire. He was a great businessman, a great community leader, a deeply religious man, and above all, an outstanding husband and father. The industry will feel his loss. I shall miss him personally, for he was my friend.

Now we go forward to another year with its new challenges and its new opportunities. With your support as understanding shareholders, with the continued support of more than 12,000 loyal employees and a management group that is second to none, we shall continue to move forward to new and meaningful goals.

JACK J. CROCKER
Chairman, President and
Chief Executive Officer

Financial Review

In the free enterprise system in the United States, individual shareholders and institutional investors have the free choice of determining the companies in which they wish to invest. These shareholders desire to match their investment objectives with the companies whose investment characteristics fulfill those objectives. Approximately 4,700 shareholders have chosen Super Valu's common stock as an investment of their choice because of our operating and financial characteristics.

With that thought in mind, the following is a brief summary of the operating and financial characteristics of Super Valu:

Sales and Earnings

The fiscal year ended February 25, 1978, represents the eighth consecutive year of increases in sales, net earnings and net earnings per share.

The table below illustrates the annual growth rates for the past one, five and ten years:

Growth Rate Percentages

For the years ended February 1978	Sales	Net Earnings	Net Earnings Per Common Share
Fiscal Year 1978	22%	38%	38%
5 Years Compounded Annually	16%	29%	25%
10 Years Compounded Annually	14%	19%	18%

Over time, our earnings increase has outpaced the increase in sales, because of our dedication to expense control, and the increased emphasis on non-food operations where net profit margins are higher than for our food operations.

Dividend Declarations

Dividends declared during the fiscal year amounted to 81¢ per common share..... an increase of 28% over the 63¼¢ per share declared in the prior fiscal year.

In the past four years, the annual dividend rate has been increased five times, from 40¢ in fiscal 1974 to the current annual rate of 86¢..... an increase of 115 per cent.

Cash dividends have been declared on Super Valu's common stock for 41 consecutive years.

In recent years, dividend payments have been equal to approximately 25% of earnings; we anticipate that our target payout ratio will increase over time, to approximately 30% of the most recent four quarters in realized net earnings per share.

This policy permits the Company to reinvest at least 70% of its current earnings back into the business for new projects with above average rates of return. Our return on average stockholders' equity and on total capital employed for fiscal 1978 was 27% and 12%, respectively.

Our dividend policy is synchronized with the objectives of our shareholders who are interested in a combination of current cash dividends and future capital gains as contrasted to a higher cash payout more typical of a mature company.

Depreciation and Amortization

Depreciation and amortization for property owned by the Company for the fiscal year was $14,444,000, which compares with $9,959,000 for fiscal 1977. In addition, amortization of our capital leases amounted to $4,879,000 compared with $4,883,000 for fiscal 1977. We anticipate that our depreciation charges and amortization of capital leases will amount to $18,000,000 and $5,300,000, respectively, for fiscal 1979.

Super Valu has adopted the provisions of Financial Accounting Standards Board Statement No. 13, Accounting for Leases.

Capital Structure

Super Valu's capital structure has improved over the prior year, since the combined total of long-term notes payable and the capitalized value of leases has declined as a percentage of total capital. The following table describes the nature of our capital structure:

	At Feb. 25, 1978		At Feb. 26, 1977	
(000,000's)	Amount	% of Total	Amount	% of Total
Long-term Notes Payable	$28.2	11	$28.2	12
Present value of:				
Capital Leases	64.2	24	71.6	30
Operating Leases	44.4	17	37.9	16
Total of Notes Payable and Lease Obligations	136.8	52	137.7	58
Stockholders' Equity	124.4	48	101.3	42
Total Capitalization	$261.2	100	$239.0	100

In order to optimize the earnings for our shareholders, Super Valu has adopted the policy of taking on debt in the form of either notes payable or lease obligations; the use of these debt instruments in prudent amounts produçes a lower overall cost of capital but still retains a capital structure that is well balanced and not overly debt heavy.

We believe that we have achieved this objective, since Super Valu's future financing options are flexible, so that we could take on additional amounts of short or long-term debt obligations without putting a strain on our capital structure.

Super Valu has made tentative arrangements to borrow $25 million of new money from two insurance companies which will mature in 1992. The takedown of these new funds will occur in equal amounts in September 1978 and in September 1979. The proceeds of this financing will be used to buy properties (mostly warehouse facilities) that are presently being leased from third parties.

The effect of this financing is to leave our capital structure almost exactly as it was before the financing, since we are simply replacing a lease obligation with a long-term debt obligation. The effect on the future income statements should be very minimal, and our cash flow should be enhanced; this transaction should also act to lower our average cost of capital.

Sales and Operating Earnings by Lines of Business

The Company defines its operation as being two broad lines of business: (1) food store operations, and (2) retail general merchandise operations. However, the table following has been designed to provide additional information about our divisional operations within those broad categories:

(000's omitted)

	Sales	Operating Earnings
Wholesale Foods	$2,240,082	
Institutional Foods	83,273	$50,533
Retail Foods	178,406	
County Seat	111,615	10,805
ShopKo	135,206	11,565
	2,748,582	72,903
Less Elimination of Intercompany Sales	155,081	
Consolidated	$2,593,501	$72,903

Expansion Plans For Fiscal 1979

Super Valu's revised capital budget for Fiscal 1979 is $81 million.

This capital spending plan includes $65 million for the cash purchase of fixed assets and equipment; $6 million for working capital additions (primarily inventories); and $10 million representing the present value of new operating lease agreements.

The largest portion of the budget ($29 million) will be devoted to our wholesale food activities where significant additions and remodeling projects are planned for existing warehouse facilities in Anniston, Alabama; Bismarck, North Dakota; Green Bay, Wisconsin; and Minneapolis, Minnesota. An all new replacement facility of 325,000 sq. ft. is planned for our wholesale food division in Fargo, North Dakota.

The Company has also budgeted $17 million for County Seat activities, including the opening of 35 new County Seat leisure wear apparel stores and to equip all of its stores with new electronic cash registers. A total of 193 County Seat stores were in operation at year end.

Super Valu has also planned to spend $20 million to build four new ShopKo general merchandise stores and to remodel and expand eight of the 21 stores now in operation.

We expect to be able to finance this capital budget with internally-generated funds, the proceeds from the sale of the Harrison House division, minor amounts of industrial revenue bonds, and with existing cash balances. Current forecasts indicate that the Company will not require any equity financing during the coming year.

Pension and Profit Sharing Plans

Super Valu's pension and profit sharing trusts are solidly financed.

The assets of Company-sponsored plans exceed 100% of the present value of all of the vested and unvested accrued benefits. The unfunded past service liability of our pension plans is approximately $1 million at March 1, 1977.

Our retirement plans have been conservatively funded from their inception, which has the beneficial effect of insuring that our employees will have a source of income after their effective service with the Company has been completed. Additionally, our shareholders do not have any large, overhanging past service obligations which would have to be funded out of future earnings.

James L. Slovick

JAMES L. SLOVICK
Senior Vice President, Finance

Operations Review

For the eighth consecutive year, sales and earnings for Super Valu moved sharply upward.

Jack J. Crocker, chairman and chief executive officer, called it one of our finest years. Sales reached a record $2.6 billion, an increase of 22% from $2.1 billion a year ago. Net earnings climbed to a new high of $30.1 million, 38% above the restated $21.8 million last year. This translated to earnings per share of $3.37, 38% higher than last year's restated $2.45. The after-tax net profit margin was 1.16% compared with 1.02% for 1977.

Wholesale Food. At fiscal year end, Super Valu was serving 1,804 affiliated retail food stores. These customers had aggregate annual retail sales of more than $4 billion. A major contributor to the record performance was Charley Brothers Co., of Greensburg, Pa., acquired last June.

Two significant top management appointments were announced in March.

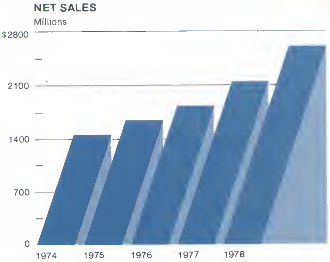
Michael W. Wright, 39, was named corporate executive vice president with broad marketing and administrative duties in wholesale food and non-food businesses. Wright, an attorney, had joined the company a year earlier as a senior vice president. Also given new responsibilities was Gene D. Hoffman, vice president of marketing, who was named to a newly-created position as president of the Super Valu wholesale food companies.

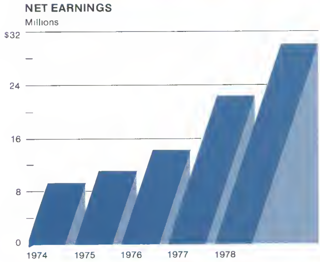
Retail Food. Super Valu had 107 company-owned units, mostly in the South. This total included 67 Mr. Quik convenience stores and 30 Sunflower stores. The company also operated 10 other retail food stores. Company retail stores had sales of $178 million.

Food Service. On March 1, Super Valu announced completion of the sale of its Harrison House food service division to Consolidated Foods Corp. of Chicago for a sale price of approximately $9 million in cash. Sales last year were $83 million, representing about 3% of the company's total sales.

Retail Non-Food. The general merchandise segment of the company accounted for 9% of Super Valu sales and 31% of total earnings. ShopKo had the best year in its history with its sales up 29% and earnings up 43% over fiscal 1977. Two new stores were opened during the year, bringing the total to 21.

County Seat continued its nationwide growth. At year end, there were 193 stores in 33 states, an increase of 33 units in one year. County Seat sales were up 53% and earnings rose 33% over a year ago. A successful new merchandising plan launched in June contributed to the record sales volume.





Operating Territories

WHOLESALE FOOD DISTRIBUTION

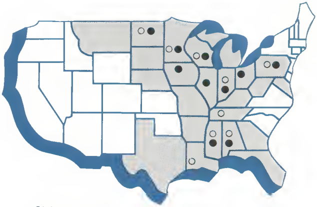
Super Valu Stores, Inc., headquartered in Minneapolis, continues as the largest food wholesaler in the United States serving retailers in 24 states.

The territory served by Super Valu stretches from Canada to the Gulf of Mexico and from Montana to Maryland. Food distribution originates from divisions located primarily in medium to smaller cities in midwestern and southern states. Combined space of all food distribution centers totals nearly 5½ million square feet (including office, garage, warehouse and rented storage space).

Super Valu's independent retailers own and operate 1,804 retail food stores while the company owns all or a majority interest in 107 stores. Also served by Super Valu are 60 national chain stores.

During fiscal 1978, Super Valu's wholesale food operating territory was enlarged through acquisition of the Charley Brothers Co. of Greensburg, Pa. This newest division, acquired in June, serves 171 stores in southwestern Pennsylvania, Ohio, West Virginia and Maryland.

In addition to Super Valu's retail general merchandise operations described below, the company operates Preferred Products, a food processing and packaging facility; Studio 70, an interior design studio; Planmark, an architectural design and engineering firm, and Risk Planners, Inc., an insurance agency.



States served by Super Valu are shown by grey shading

○ Corporate Retail Food Stores

● Wholesale Distribution Centers

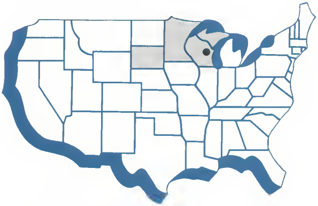
SHOPKO STORES

ShopKo Stores, Inc., with headquarters and distribution center in Green Bay, operates 21 department stores in Michigan, Wisconsin, Minnesota and South Dakota.

ShopKo stores range in size from 26,000 to 106,000 square feet, selling more than 50,000 different items. Seventy per cent of sales are hardgoods categories and 30 per cent are softlines.

Two new ShopKo stores were opened during fiscal 1978, in Wausau and Manitowoc, WI. Both stores are approximately 85,000 square feet and offer all of ShopKo's merchandising strategies including fabric and craft centers, pharmacies and home improvement centers.

All ShopKo stores offer housewares, small appliances, paint, toys, sporting goods, photo supplies, records and tapes, health and beauty aids, men's, women's and children's apparel and other general merchandise.



States served by ShopKo Stores are shown by grey shading

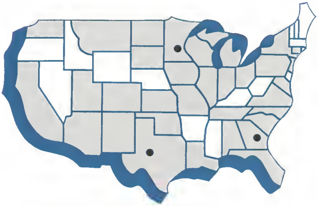
● ShopKo General Offices and Distribution Center

COUNTY SEAT STORES

County Seat Stores, Inc., a division of Super Valu, featuring casual apparel for the entire family, grew to 193 stores by the end of the fiscal year.

These stores are located in 33 states reaching from coast to coast with concentration in the central and southeastern U.S. Stores are typically located in major regional shopping malls, and average 3,500 square feet, with 3,000 square feet of selling space.

County Seat's headquarters and main distribution center are located in suburban Minneapolis, with regional offices and distribution centers in Atlanta and Dallas. The Dallas distribution center is an addition during fiscal 1978. It supplies growing markets in the south central and southwestern states.



States served by County Seat Stores are shown by grey shading

● County Seat Distribution Centers

Thoughts on Free Enterprise

To succeed, a business needs the public confidence in the company's ability to operate honestly, wisely and responsibly. If a business cannot win that public trust, most likely it will fail. That is the story of the free enterprise economic system.

Super Valu believes in perpetuating, improving and strengthening the system. Without it we could not exist, serve our customers and be rewarded justly for our performance. We strive constantly to meet our corporate responsibilities. This is important to us, and our people agree. Following are some essays on free enterprise written by employees and individuals affiliated with us. Each expresses a personal viewpoint. We hope you find them revealing and reassuring.

Super Valu supports the free enterprise system by equipping independent food retailers with the products, services and skills they need to compete effectively in the marketplace.

James H. Ruben
Board of Directors

Financial performance and responsible behavior.

by James H. Ruben

Much has been written about the virtues of our free enterprise system and how economic and business freedom for the individual is closely related to political and social freedom for all of society.

After over two decades in business management and ownership, my conviction is that with this freedom there is an intrinsic responsibility towards society.

Since nothing in our Constitution, Declaration of Independence or Bill of Rights guarantees continuity of the capitalistic system, business managers and owners must continually recognize that their primary responsibilities go beyond servicing the needs of their customers and investors. They must also demonstrate that our economic system can provide more opportunity, hope, a greater distribution of wealth and meaningful participation than any other system, or it will and should fail.

In the end, business can only operate on a franchise of public goodwill, respect and trust. When overt or covert actions of businessmen jeopardize these attitudes, the public can and does respond through the legislative and elective political process, often creating a regulatory environment which inflicts serious hardships on all business people.

A business career is not for everyone but it is rewarding for those who welcome the opportunity to be judged and rewarded not on intentions or even effort, but on competitive results and on performance that is tangible and quantifiable.

Capital is blind and goes where it is treated best. Only those managers who demonstrate that they can use it efficiently succeed. In this way, our capitalistic system creates a totally democratic environment in which judgment of managers is not based

on color, religion, political attitudes or lifestyles. Rather, a realistic judgment must be based solely on the measurable productivity of short and long-term financial performance coupled with responsible behavior.

I know of no better system than ours to provide opportunities for bringing together people of different educational, geographical, religious and political backgrounds and to provide the incentive to work productively towards a common objective. Efficiency and productivity are the by-products of our business system because, when all is said and done, society can only share what it collectively produces.

Carolyn Skovbroten
Secretary,
Home Office Sales Dept.

Free enterprise and the quality of life

by Carolyn Skovbroten

I was a college student during the height of the Vietnam War. My generation protested a war we believed unjust, and we marched with placards scrawled with words like Peace, Love, Brotherhood and Freedom (at least the freedom to do our own thing).

This was also a time of inner turmoil, of youth questioning traditional beliefs. In the academic environment in which I came of age, the system of free enterprise for profit was regarded with some suspicion. Many of us thought that emphasis on profit limited private industry's social responsibility and that competition encouraged a wasteful proliferation of products.

Private industry stood accused of wrongfully allocating our country's resources, gulling the consumer, exploiting employees and polluting the environment. Government intervention was regarded as necessary to protect consumer and employee rights and to force corporate social responsibility.

Experience is a painful but effective teacher. Seven years of working in the private sector, along with taking evening courses towards a Master's Degree in Business Administration, have taught me that those campus-born ideas were the result of undue emphasis on the negative aspects of an economic system which has far more positives than negatives.

Without profit, a business cannot exist, and it makes a profit by satisfying its customers' needs and wants. The more completely the firm satisfies those needs, the more profit it will make, and profitability insures that a company can be responsive to employees and to society in general—without government intervention.

The free enterprise system provides us all with an infinite variety of goods and services at reasonable prices. It is responsible for the high standard of living we enjoy and affords us the leisure to pursue whatever we individually define as quality of life.

John Prior
Corporate Vice President,
Labor Relations

The role of unions in a free enterprise system

by John Prior

In a free enterprise system, the means of production are privately owned and controlled. Each person is free to make decisions pertaining to his economic life, and each individual's income is roughly in proportion to the value his labor and other resources produce.

Labor unions should not always be viewed by management as an adversary. Constructive accomplishments are possible in a union-management

cooperative action so long as the endeavor is confined to methods for improving internal plant efficiency and/or achieving lower prices. These cooperative actions can be beneficial to the employer, the employee and the consumer.

The problems of cooperative action are not easily solved. Management is responsible for obtaining maximum efficiency, but at the same time it is deprived of sole jurisdiction over functions which it considers necessary for efficient operations. Unions are charged with the responsibility of protecting the jobs of their members and improving conditions of work, but cooperation with management might result in lower wages and loss of jobs. Neither an employer nor a union will undertake a cooperative program unless each expects to gain from it. Management and union responsibilities are not always compatible, but when they do attempt to cooperate, such action must be based upon a frank acceptance of divergent interests and recognition that the ultimate well-being of all concerned is dependent upon efficient operation.

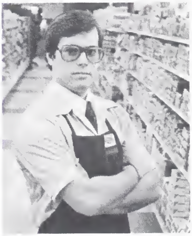
If America should continue to have political democracy and a free enterprise economy, I believe it essential that the great mass of workers be committed to the preservation of this system. Yet such a commitment cannot exist if workers feel that their rights are not respected, and they do not get their fair share of the rewards.

By giving employees protection against arbitrary treatment and by reinforcing their hope of continuous future gain, unions have helped to assure that the values of our society are broadly based and that any disagreements will be negotiated within the framework of agreement.

I cannot say that the economic losses imposed by unions on companies are too high a price to pay for the union's successful performance. There certainly would be more complete approval of the non-economic aspects of trade unionism if there were less corruption and more democracy in unions. I believe that if the process and structure of unions were revised, the demands would be more honest and better understood. One simple proposal would be to provide that no union leader in a national, regional or local level, could serve in office unless he were subject to a secret ballot of the membership.

A broad approval of our system of collective bargaining does not imply that there could not be improvement in unions, but this should come through voluntary change within the union or through development of public policy.

Unions are helping to shape public policy in areas far removed from collective bargaining. By proposing or supporting such measures as aid to chronically depressed areas, public-financed care of the aged and other government subsidized welfare programs, unions are acting as a social conscience for the American economy. By keeping the issues alive, unions can insure that we will not become complacent about those groups who are being left behind. In this role of social conscience, more than in collective bargaining, unions can make their most significant contribution to our free enterprise society.



Kim A. Klocke
Retailer,
Decorah, Iowa

The independent retailer's challenge

by Kim A. Klocke

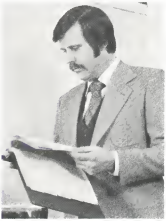
A bag boy? A bookkeeper? A good neighbor? A merchant? Yes, as a manager of an independently owned and operated supermarket, these are just a few of the roles we have accepted. Being independent, I believe, is the optimum of the free enterprise system we have in America today.

Being independent grocers, we have to answer only to ourselves, not to a higher governing body. Our pride in doing the best we can should be the strongest drive we have as managers. What and how we do as businessmen is reflected in our ability to keep our heads out of water and not go broke. Our stores provide direct evidence of our individuality in ideas and decisions.

Our basic responsibility is to make available a product or service to the most demanding consumer in history at a fair and competitive price. The sale is just one of the many responsibilities we have as far as managerial skill is concerned.

It is amazing how rapidly the little incidentals become costly, so it is our discriminating decisions that are important financially. Hiring, training and retaining co-workers are a few other personal ways in which our decisions become visible. It is a real enrichment to work with others on a day-to-day basis. Genuine concern for the well-being of others gives us the opportunity of being almost like a family. As independent retailers we tend to stay in one community for many years, making us responsible citizens aware of the need for public support as well as for supporting the public.

Responsibility is not only to ourselves. We are responsible to our employees and mostly to our customers. Free enterprise? Yes, but as with all freedoms come many responsibilities. These responsibilities are the great challenges independent retailers have accepted. With the support of each other and the grace of God, I am confident we can all meet these challenges and make this a socially beneficial free enterprise system.



Ron Tortelli
Personnel Director, ShopKo

Seek entrepreneurial talent

by Ron Tortelli

Of the many freedoms we enjoy, I believe the one most important to the success we have had, and hoped for, is our free enterprise system. Although it has been criticized and interfered with, the system has survived and prospered.

The pressures it has been subjected to have only increased the determination of its advocates to make it work. Some people have questioned its ultimate survival, yet I see it growing stronger. I am of the opinion that the vitality of the free enterprise system is, ultimately, dependent upon the availability and performance of individuals with entrepreneurial talent.

Entrepreneurs have no commonality of education, age, experience, family background, sex, race or career orientation. Rather they can be characterized as individuals who assume leadership roles in management, who have new ideas, recognize opportunity, inspire change, take risks and who are turned on by and accept the challenge of survival and growth.

In our business we have a tremendous continuing need to identify, attract and retain entrepreneurs. This is because we are in the service industry and are responsible for providing products to virtually all people in the face of severe competition. I believe that a company's chances for success are proportionate to the entrepreneurial talents of its employees.

In our company we have been fortunate because we have been able to develop more than half of our management from within. Many of these were hourly employees who exhibited entrepreneurial abilities, were identified and allowed to grow and develop and assume major leadership roles in our company.

Our approach to operating our business is to have all management employees share in decision making, risk taking, trying new ideas and overall, to be involved in "a piece of the intellectual action." People do make mistakes. They are costly at the moment, but we view them as part of the learning process. We have found these are overshadowed by the many right judgments made.

Developmental programs should not be designed to train entrepreneurs, but rather to provide the climate and to expose them to the business we are in. The business leadership of today cannot expect prospective entrepreneurs to walk precisely in their footsteps. Allowed to seek their own way, to stumble and at times fall, the neophyte entrepreneur ultimately will achieve and exceed what we have accomplished.

Linda Runbeck
County Seat
Advertising Manager

Choice, risk taking and rewards

by Linda Runbeck

Something so simple as the freedom to make choices is where the real meaning of the free enterprise system lies for me.

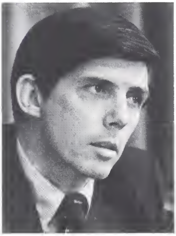
Under what other system can one choose the type of education to pursue? What other system allows one to select a career simply because it holds special interest? Where else can one switch careers in favor of a totally new option?

My original career choice was social work. Where it had appeared to offer great personal challenge, I found it required only passable performance and little opportunity for realistic goal-setting and accomplishments. I chose to seek a career which I believed demanded more and offered more.

Under what other system can one choose the level of risk or responsibility he or she desires? As an employee at Super Valu where I began as a secretary and now at County Seat, I chose responsibility and challenge. I desired the opportunity to grow and be tested. The motivational factor underlying the free enterprise system has demonstrated itself to me. During no other period in my life have I been so continuously stimulated or have I demanded more of myself.

Of course, inherent in the notion of choice also lies the possibility for failure. The system provides no guarantees, and it implies that the bigger the risk, the bigger the potential loss. It bases few rewards on past performance. Obviously, there are individuals as well as societies that can't operate under this uncertainty or are fearful of the risks. The system, I think, offers them a fate of monotony and mediocrity.

It is the spirit of free enterprise which opens up the possibility for individuals to achieve the goals and the happiness they desire. It is the spirit of the free enterprise system which has made our society so strong, so innovative, so goal-oriented and successful. It holds for each of us the promise of a rich and productive life if we choose to pursue and take the risks. This is a fantastic promise.



John E. Morrissey
Senior Vice President

Over regulation-a deep concern

by John E. Morrissey

Super Valu has had another excellent financial year. One principal reason for this success is that Super Valu operates under a free enterprise system which encourages every member of the Super Valu organization to search constantly for ways to utilize labor and equipment more productively. The objective is to serve customers better every day.

There always have been many regulations governing business—the hours of closing, licenses, and the like. What is changing is that the range of decisions which business and private citizens may make and those which government regulatory agencies make for them. The relative proportion of activities in business and in personal life which are regulated have enlarged so rapidly that we are shifting from a society and an economy in which regulations are a minor annoyance and free enterprise our way of life, to one in which the reverse is true.

This trend has three major implications which will substantially alter the America our children will live in.

First, our expectations of continued rapid economic advancement will not be met. A regulated

economy will never produce goods and services as efficiently as a free enterprise economy. Growth comes from increases in capital stock: more trucks, factories, milling machines, higher-powered tractors. Capital stock cannot be improved without a surplus called profit, which comes through increased efficiency. A free enterprise economy will generate surplus to be reinvested to create jobs and earnings.

Second, our society is in general, a pleasant, open society with good feelings towards neighbors and open hearts to strangers—the ideal of the Good Samaritan has not been lost. As we move toward a society in which an individual's affluence is based on his own, or his region's political influence, more frictions arise.

Regulation encourages regions, industries or factions to gain advantage through political power, not through freely-entered contracts. The open American society will not be the same when every region or industry must be concerned with the political strength of every other region or industry.

Third, political power will be increased and concentrated in fewer hands. Our founding fathers established separation of powers in our Constitution. They believed that a government which allowed each citizen the widest choice in his personal life would endure.

The path of regulatory strangulation is well-traced. Regulation is initiated to protect an industry. The more it is regulated, the more inefficient it becomes until subsidies are needed for survival. An industry which relies on regulation and subsidy must expect that its decisions will be subject to political review and approval.

The conclusion from these three major implications of the trend to regulation is that if it continues, society and business will undergo major changes. These changes will not be welcome. With all the recent criticism made of our society, it still is the most efficient, open, peace-loving society in the world.

Many of the evils of regulation could be eliminated if new regulations were judged by their cost-benefit ratio. The weighing of costs and benefits for every activity is the key to business success. The elimination of arbitrary, costly and ineffective regulations could have an immediate impact on inflation, and in the long run, on our way of life.

Robert Baesler
Retailer,
Terre Haute,
Indiana

We enjoy the benefits of our labor

by Robert Baesler

We Americans have many blessings. Among them is one which many times we take for granted. This blessing, the free enterprise system, is the greatest single source of our country's economic success.

In the past, America's attraction had always been the opportunity for an individual to get ahead on his merits and the chance to be master of his own destiny. Today we are anything but a nation of small businessmen. America's economic power is concentrated in the hands of a relatively small number of large corporations.

Even though this is the situation, it's good to know that the small grocer is alive and doing well, thanks to his own entrepreneurial initiative and to progressive wholesalers like Super Valu. Through Super Valu's many services like store development, retail accounting, field representatives, and their tremendous buying power, the small retail grocer can be competitive.

Super Valu in itself is an excellent model of the free enterprise system. What distinguishes free enterprise from other economic systems is the individual owning his own tools of production whether it be manufacturing or retailing.

In Super Valu's framework, unlike the chain operation, the retail grocer owns and operates his own business. That, coupled with Super Valu's buying power, allows many small retail grocers in this country to compete successfully on a head-to-head basis with large corporate chains. In many cases, these retail grocers are taking over deserted chain

locations and even doubling or tripling the chain's volume of business.

The free enterprise system has outperformed and outproduced any other in the world. It has provided more goods for more people and more jobs in better conditions. It has left people free to control their own lives, produce at the rate they choose, and to reap the benefits of their labor.

Ken Chupita
Corporate Director of Financial Planning

Where does business go from here?

by Ken Chupita

Judged by most standards, our private enterprise system is a success. It has produced not only benefits for the few, but a better standard of living and freer, more humane life for the many—and that has to be the bottom line when you measure economic success or compare economic systems. But is it enough? Success breeds ever greater expectations, and many think our economic system can be improved.

Increasing numbers of people know more about business today than ever before, and many don't like what they see. Some don't accept the profit motive, the keystone of any market economy. Others don't agree with the values of business, arguing that its level of fair play and responsibility is too low. Still others feel the system serves private interests to the exclusion of public concerns.

These issues deserve to be addressed since they can affect the economic freedom of each of us. The business community has been reluctant to address them in the open forum, thinking that the sole job of business is business. Executives need to do more—not for defensive reasons but because answering the public's concerns is the responsibility of business leaders. They need to openly discuss and debate the merits of the system as well as become more diligent in keeping their own houses in order.

Americans need reminders that the process of seeking a profit is not a form of villainy. It's a legitimate endeavor which is never unethical when both sides of the contract benefit, and no one's caught in between. Profits are needed in a market economy as an incentive for risking one's capital, and this fact will disappear only if we scrap our economic system.

Making a buck not only provides a competitive edge to our economy, but also totally supports our society. Without profits there'd be no foreign aid, little welfare, few campuses. Without profits there'd be no foundations, and retirement would remain nothing but a dream.

But there's more to business than profits. Corporations influence our lives as never before. The goods and services they offer, the employment they provide, the taxes they pay, the entertainment they support, affect us all. That's why the public is concerned with how business conducts itself. Corporate management may not enjoy living in a goldfish bowl, but such scrutiny helps assure that all segments of this country remain socially responsive.

For business this means becoming more mindful of social needs as well as economic opportunities. People expect fairness, integrity, respect for law and social responsibility. These expectations are just as real and just as important as any economic need. Companies must recognize that they are truly successful only when operated for the benefit of all interested parties.

Economic freedom is a delicate commodity. Like clean air, it is not usually appreciated until it begins to run out. If business is unresponsive to the legitimate concerns of society, government will fill the void, and even more of this freedom will be lost. I hope this doesn't happen. I hope business won't rest on past laurels. If executives choose to accept a more broadly defined role, our economic system will remain strong and competitive.

Profit Centers

Left. Super Valu leisure apparel chain, County Seat, carries a full line of popular Levi's ® products. Below. ShopKo Stores, the company's general merchandise chain, opened two new stores in fiscal 1978. Grand opening festivities included a rose for every lady.

At year end Super Valu served 1,971 retail supermarkets located in 24 states.

Bismarck Division
Marvin E. Erdmann
President
707 Airport Road
Bismarck, North Dakota 58501

Charley Brothers Company
Frederick J. Charley
President
P.O. Box 700
Greensburg, Pennsylvania 15601

Chastain-Roberts Division
Thomas J. Peterson
President
Roberts Drive, Industrial Park
Anniston, Alabama 36201

Des Moines Division
L. Rex Burns, *Chairman*
Laurence Anderson, *President*
3900 N.W. 106th Street
Des Moines, Iowa 50322

Fargo Division
Kenneth M. Kegerreis
President
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Fargo, North Dakota 58102

Food Marketing Corporation Division
Richard B. Sturges
President
4815 Executive Boulevard
Interstate Industrial Park
Fort Wayne, Indiana 46801

Green Bay Division
Michael L. Horn
President
451 Joannes Avenue
Green Bay, Wisconsin 54305

J. M. Jones Company
George H. Thomazin
President
2611 N. Lincoln Avenue
Urbana, Illinois 61801

The Lewis Grocer Company
Celian H. Lewis
President
P.O. Box 670
Indianola, Mississippi 38751

Minneapolis Division
Lowell J. Janke
President
101 Jefferson Avenue So.
Hopkins, Minnesota 55343

Plainfield Distribution Center
Phillip A. Dabill
General Manager
U.S. Route 30—143rd Street
Plainfield, Illinois 60544

Xenia Division
Kenneth C. Techau
President
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Xenia, Ohio 45385

County Seat Stores, Inc.
William S. Bailey
President
8816 70th Avenue No.
Brooklyn Park, Minnesota 55428

Planmark
Lloyd Stenbeck
Director
121 Washington Avenue So.
Hopkins, Minnesota 55343

Preferred Products, Inc.
Herbert P. Asselstine
President
312 Lake Hazeltine Drive
Chaska, Minnesota 55318

Risk Planners, Inc.
Dan A. McCoy
President
3601 Park Center Boulevard
St. Louis Park, Minnesota 55416

ShopKo Stores, Inc.
William J. Tyrrell
President
2800 South Ashland
Green Bay, Wisconsin 54304

Studio 70
William A. Pearson
Manager
145 Washington Avenue So.
Hopkins, Minnesota 55343

Ten-Year Financial and Operating Summary

Super Valu Stores, Inc. and Consolidated Subsidiaries

	Net sales	Cost of sales	Interest and other debt expense	Provision for income taxes	Net earnings	Net earnings as percent to net sales	Dividends on preferred stock
1978	$2,593,501	$2,389,927	$7,450	$27,923	$30,106	1.16	
1977 (e)	2,133,549	1,969,509	7,476	19,489	21,836	1.02	
1976 (c,d,e)	1,821,244	1,671,790	8,536	12,567	13,960	.77	
1975 (b)	1,640,110	1,515,451	4,424	10,471	11,061	.67	
1974	1,449,073	1,344,527	3,437	7,534	9,141	.63	
1973	1,221,253	1,132,205	2,494	6,694	8,447	.69	$19
1971	1,022,386	945,507	2,089	7,181	8,029	.79	32
1970	859,760	795,296	1,747	5,574	5,857	.68	33
1969	806,960	751,452	1,483	4,781	4,839	.60	34
1968	750,968	704,717	778	4,712	5,040	.67	36

	Common shares outstanding (end of year)	Number of common stockholders	Common stockholders' equity	Percent of return on common stockholders' equity (yearly average)	Stockholders' equity per share of common stock (end of year)	Net working capital
1978	8,942	4,659	$124,440	26.66	$13.92	$60,492
1977 (e)	8,922	4,551	101,290	23 50	11.35	68,584
1976 (c,d,e)	8,886	4,226	84,576	19 15	9.52	62,691
1975 (b)	7,678	3,850	61,208	18.18	7.97	65,051
1974	7,678	3,827	56,946	16.97	7.42	59,889
1973	7,678	3,498	50,761	17.54	6.61	51,596
1971	7,676	3,499	44,587	19.04	5.81	47,134
1970	7,660	3,246	39,758	15.46	5.19	37,445
1969	7,614	3,146	36,006	13.98	4.73	30,747
1968	7,530	3,245	33,202	15.90	4.41	31,160

NOTES:

a) Each of the years had a duration of 52 weeks except the years ended February 28, 1976 and January 1, 1972 which covered a period of 53 weeks. Amounts in thousands except per share and percentage figures, number of employees and number of common stockholders.

b) During fiscal 1975, the Company adopted the LIFO method of determining cost for a major portion of wholesale food inventories. This change had the effect of reducing these inventories at February 22, 1975 by $7,971,000 and net earnings by $3,874,000 ($.50 per share) for the year then ended. Because of this change, financial statements for fiscal years prior to fiscal 1975 are not comparable with those of any subsequent year.

c) The Company disposed of its retail fabric business during fiscal 1977. A reserve to cover the related costs was established during fiscal 1976. This reserve, together with Daytex operating losses reduced fiscal 1976 earnings $2,348,000, or 29 cents per common share.

d) Net earnings are before the cumulative effect of adopting Financial Accounting Standards Board's Statement 13—Accounting for Leases. The cumulative effect totaled $3,538,000 ($.44 per share) resulting in restated net earnings of $10,422,000 ($1.31 per share). It was not practical to restate years prior to fiscal 1976.

e) Various amounts and statistics for fiscal years 1977 and 1976 have been restated, as a result of the retroactive adoption of Financial Accounting Standards Board, Statement 13, Accounting for Leases. See notes A and F to financial statements.

f) See notes to financial statements.

Management Discussion

Net earnings applicable to common and common equivalent shares	Weighted average number of shares outstanding	Net earnings per common share	Dividends declared per common share	Federal investment tax credit
$30,106	8,933	$3.37	$.81	$1,450
21,836	8,896	2.45	.63¼	1,125
13,960	7,964	1.75	.52½	750
11,061	7,678	1.44	.42½	400
9,141	7,678	1.19	.38½	800
8,428	7,702	1.09	.38	748
7,997	7,706	1.04	.36⅔	220
5,824	7,684	.76	.36⅔	81
4,805	7,674	.63	.36⅔	226
5,004	7,674	.65	.36⅔	323

Current ratio	Fixed asset expenditures (net)	Depreciation and amortization	Merchandise inventories	Number of employees
1.34:1	$40,687	$19,323	$158,931	12,270
1.51:1	21,673	14,842	125,378	11,575
1.51:1	13,020	12,456	113,559	9,450
1.76:1	5,961	7,127	96,936	9,258
1.80:1	10,003	6,891	97,835	9,368
1.82:1	11,860	6,058	78,200	9,072
2.01:1	10,897	5,099	63,594	7,803
1.84:1	6,191	4,344	51,985	7,122
1.74:1	6,746	3,684	45,634	6,563
1.84:1	5,165	3,144	42,494	5,910

Fiscal 1978 compared with fiscal 1977

Net sales for 1978 exceeded the prior year by $459,952,000 (21.6%) and cost of sales increased $420,418,000 (21.3%). Sales of the Company's food store operations increased $392,699,000 (20.1%), principally due to greater volume, the June 18, 1977 acquisition of the Charley Brothers Company (Note G) and to a lesser extent, price increases. If the results of the Charley Brothers Company had been included in both years food store sales would have increased $309,853,000 (13.1%). Retail general merchandise sales increased $67,523,000 (37.5%). These sales include the results of 33 County Seat Stores and two ShopKo general merchandise stores opened during the year. Remaining County Seat and ShopKo stores also reflected volume increases.

Selling and administrative expenses increased by $22,799,000 (19.6%) as a result of increased volume.

The small increase in the effective tax rate results from a slightly higher average state tax rate.

Fiscal 1977 compared with fiscal 1976

Net sales for fiscal 1977 exceeded the prior year by $312,305,000 (17.1%) and cost of sales increased $297,719,000 (17.8%). Sales of the Company's food store operations increased $269,051,000 (16.0%) principally due to greater volume and, to a lesser extent, price increases. Retail general merchandise sales increased $43,254,000 (31.7%). Adjusting for sales of the Daytex fabric store operations which were disposed of in fiscal 1977 general merchandise sales increased 45.0%. These results include sales of 80 County Seat stores opened during the year. ShopKo general merchandise stores and remaining County Seat stores also reflected volume increases.

Gross profit as a percent to sales decreased slightly, due principally to lower wholesale food margins.

Selling and administrative expenses were greater by only $1,849,000 (1.6%). Expense increases resulting from County Seat expansion were substantially offset by the disposition of Daytex and certain retail food operations. Also, the 1976 amount includes $3,890,000 of reserves provided for the cost of disposition of the Daytex fabric store operations.

Interest and other debt expense declined $1,060,000 (12.4%) due to pre-payment in fiscal 1976 of long-term bank loans with the proceeds of the Company's November 25, 1975 stock offering. The effective tax rate is slightly lower due to greater investment tax credit.

Composition of Net Sales and Earnings Before Income Taxes

Super Valu Stores, Inc. and Consolidated Subsidiaries

The following table sets forth, for each of the last five fiscal years, the composition of the Company's net sales and earnings before income taxes and, for 1978 and 1977, information required by Financial Accounting Standards Board Statement No. 14, Financial Reporting for Segments of a Business Enterprise ($ in thousands).

Net sales:	1974	1975	1976	1977	1978
Food store operations	$1,372,917 94.7%	$1,540,110 93.9%	$1,684,930 92.5%	$1,953,981 91.6%	$2,346,680 90.5%
Retail general merchandise operations	76,156 5.3%	100,000 6.1%	136,314 7.5%	179,568 8.4%	246,821 9.5%
Total net sales	$1,449,073 100.0%	$1,640,110 100.0%	$1,821,244 100.0%	$2,133,549 100.0%	$2,593,501 100.0%
Operating earnings before income taxes:					
Food store operations	$ 26,494 96.5%	$ 30,282 88.4%	$ 36,170 83.9%	$ 38,780 70.3%	$ 50,533 69.3%
Retail general merchandise operations	956 3.5%	3,989 11.6%	6,969 16.1%	16,413 29.7%	22,370 30.7%
Total operating earnings	27,450 100.0%	34,271 100.0%	43,139 100.0%	55,193 100.0%	72,903 100.0%
Interest and debt expense	(3,437)	(4,424)	(8,536)	(7,476)	(7,450)
General corporate expenses	(7,672)	(8,657)	(8,682)	(7,393)	(8,368)
Earnings before income taxes	$ 16,341	$ 21,190	$ 25,921	$ 40,324	$ 57,085
Assets identified to segments:					
Food store operations				$ 204,510	$ 247,810
Retail general merchandise operations				65,868	96,692
Corporate				61,022	48,309
Total				$ 331,400	$ 392,811
Depreciation and amortization:					
Food store operations				$ 10,561	$ 14,484
Retail general merchandise operations				3,559	4,503
Corporate				362	336
Total				$ 14,482	$ 19,323
Capital expenditures:					
Food store operations				$ 18,040	$ 34,857
Retail general merchandise operations				9,519	14,601
Corporate				445	353
Total				$ 28,004	$ 49,811

The Company's food store operations include wholesale sales to independently owned and operated food stores, retail sales by food stores owned by the Company and, until the February 25, 1978 sale of its food service division (note B to financial statements), wholesale sales to institutional food customers, along with the operations of several allied service operations throughout the United States. Retail general merchandise operations include discount department stores and leisure wear apparel stores also in the United States.

Industry segment operating earnings were computed as total revenue less associated operating expenses, which exclude general corporate expense, interest and other debt expense and income taxes.

Identifiable assets are those assets of the Company directly associated with industry segments and exclude short-term investments, accumulated income tax timing differences and other corporate assets. Identifiable assets do not include operating leases relative to leisure wear apparel stores. If these leases were construed to be capital leases, retail general merchandise assets and total assets would be increased $34,100,000 for 1978 and $28,759,000 for 1977.

See notes following Ten Year Financial Operating Summary and notes to the financial statements. Note e following the Ten Year Financial and Operating Summary explains the large increase in interest and debt expense for 1976, 1977 and 1978.

Statement of Earnings

Super Valu Stores, Inc. and Consolidated Subsidiaries

	Fiscal year (52 weeks) ended	
	February 25, 1978	February 26, 1977 (Restated)
Net sales	$2,593,501,000	$2,133,549,000
Costs and expenses:		
Cost of sales	2,389,927,000	1,969,509,000
Selling and administrative expenses	139,039,000	116,240,000
Interest and other debt expenses	7,450,000	7,476,000
	2,536,416,000	2,093,225,000
Earnings before income taxes	57,085,000	40,324,000
Provision for income taxes (Note A):		
Currently payable (includes investment tax credit of $1,450,000 for 1978 and $1,125,000 for 1977)	28,081,000	18,481,000
Deferred	(158,000)	1,008,000
	27,923,000	19,489,000
Net earnings of Super Valu Stores, Inc. and consolidated subsidiaries	29,162,000	20,835,000
Net earnings of unconsolidated finance subsidiary (Note A)	944,000	1,001,000
Net earnings	$ 30,106,000	$ 21,836,000
Weighted average number of common shares outstanding (Note A)	8,933,000	8,896,000
Net earnings per common share (Note A)	$3.37	$2.45

See notes to financial statements.

Balance Sheets

Super Valu Stores, Inc. and Consolidated Subsidiaries

Assets	February 25, 1978	February 26, 1977 (Restated)
Current Assets:		
Cash (including temporary investments of $28,576,000 in 1978 and $47,106,000 in 1977)	$ 29,068,000	$ 47,548,000
Receivables, less allowance for losses of $1,400,000 in 1978 and $1,250,000 in 1977	31,518,000	23,422,000
Due from purchaser of food service division (Note B)	12,251,000	
Inventories (Note A)	158,931,000	125,378,000
Supplies and prepaid expenses	4,353,000	2,608,000
Deferred income tax benefits (Note A)	3,413,000	3,176,000
TOTAL CURRENT ASSETS	239,534,000	202,132,000
Other assets and deferred charges (Notes A and G)	6,905,000	4,109,000
Investment in and advances to unconsolidated finance subsidiary (Note A)	6,574,000	7,595,000
Deferred income tax benefits (Note A)	2,857,000	2,492,000
Property, plant and equipment, at cost (Notes A and F):		
Land	4,746,000	1,840,000
Buildings	23,425,000	13,131,000
Properties under construction	3,546,000	
Leasehold improvements	23,072,000	17,383,000
Equipment	74,395,000	58,065,000
Leased assets under capital leases	80,502,000	86,368,000
	209,686,000	176,787,000
Less accumulated depreciation and amortization:		
Owned property, plant and equipment	45,479,000	35,505,000
Leased assets under capital leases	27,266,000	26,210,000
	136,941,000	115,072,000
	$392,811,000	$331,400,000

See notes to financial statements.

Liabilites and Stockholders' Equity

	February 25, 1978	February 26, 1977 (Restated)
Current Liabilities:		
Accounts payable	$117,692,000	$ 94,804,000
Checks outstanding, net (Note A)	30,859,000	18,291,000
Contributions under retirement plans (Note A)	3,564,000	2,425,000
Accrued compensation	5,184,000	3,791,000
Property, payroll and sales taxes	4,887,000	4,084,000
Federal and state income taxes	10,658,000	4,520,000
Payments due within one year on long-term notes payable (Note C)	272,000	77,000
Payments due within one year under capital leases (Note F)	4,004,000	4,084,000
Dividends payable	1,922,000	1,472,000
TOTAL CURRENT LIABILITIES	179,042,000	133,548,000
Long-term notes payable (Note C)	28,203,000	28,182,000
Obligations under capital leases (Note F)	60,241,000	67,451,000
Other liabilities	885,000	929,000
Stockholders' equity (Notes A, C, D, and E):		
Common stock	8,942,000	8,922,000
Capital in excess of par value	15,728,000	15,468,000
Retained earnings	99,770,000	76,900,000
TOTAL STOCKHOLDERS' EQUITY	124,440,000	101,290,000
	$392,811,000	$331,400,000

Changes in Financial Position

Super Valu Stores, Inc. and Consolidated Subsidiaries

	Fiscal year (52 weeks) ended February 25, 1978	February 26, 1977 (Restated)
Sources of funds:		
Net earnings	$ 30,106,000	$21,836,000
Charges not involving use of funds:		
Depreciation and amortization-property and intangibles	14,444,000	9,959,000
Amortization of capital leases	4,879,000	4,883,000
Deferred income taxes	(365,000)	(85,000)
	49,064,000	36,593,000
Less equity in net earnings of unconsolidated finance subsidiary	944,000	1,001,000
Working capital provided from operations	48,120,000	35,592,000
Sale of common stock under option plans	280,000	542,000
Disposals of property, plant and equipment	2,018,000	1,912,000
Disposals of leased assets	7,106,000	4,419,000
Reduction of advances to unconsolidated finance subsidiary	1,965,000	2,535,000
Additional long-term borrowings	197,000	
Additional long-term obligations under capital leases	5,063,000	2,139,000
Other	2,109,000	46,000
	66,858,000	47,185,000
Applications of funds:		
Property, plant and equipment additions	40,148,000	25,865,000
Leased asset additions	5,063,000	2,139,000
Reduction of long-term notes payable	176,000	61,000
Reduction in obligations under capital leases	12,273,000	7,254,000
Cash dividends declared	7,236,000	5,630,000
Purchase of assets of the Charley Brothers Co.:		
Property, plant and equipment	4,600,000	
Intangible assets	5,454,000	
	74,950,000	40,949,000
Increase (decrease) in working capital	$ (8,092,000)	$ 6,236,000
Summary of changes in working capital:		
Increase (decrease) in current assets:		
Cash and temporary investments	$(18,480,000)	$ 3,791,000
Receivables	1,731,000	1,756,000
Due from purchaser of food service division	12,251,000	
Inventories	23,873,000	11,819,000
Deferred income tax benefit	237,000	(687,000)
Other	1,397,000	(390,000)
Decrease (increase) in current liabilities:		
Accounts payable	(17,052,000)	(3,594,000)
Checks outstanding, net	(12,568,000)	(7,373,000)
Payments due within one year under capital leases	80,000	500,000
Miscellaneous accounts payable and accrued expenses	(9,080,000)	414,000
Net working capital acquired from the Charley Brothers Co.	9,519,000	
Increase (decrease) in working capital	(8,092,000)	6,236,000
Working capital, beginning of year	68,584,000	62,348,000
Working capital, end of year	$ 60,492,000	$68,584,000

See notes to financial statements.

Stockholders' Equity

Super Valu Stores, Inc. and Consolidated Subsidiaries

	Common stock Shares	Amount	Capital in excess of par value	Retained earnings
Balances at February 28, 1976				
As previously reported	8,885,916	$7,405,000	$16,477,000	$64,612,000
Adjustment for change in method of accounting for leases (Note A)				(3,918,000)
As restated	8,885,916	7,405,000	16,477,000	60,694,000
Sale of common stock under option plans, including $149,000 of income tax benefit resulting from options sold under non-qualified plans	40,370	35,000	507,000	
Purchase of treasury shares	(4,000)	(4,000)	(30,000)	
Stock split effected in the form of 100% stock dividend and change in par value		1,486,000	(1,486,000)	
Net earnings				21,836,000
Cash dividends declared on common stock—$.6325 per share				(5,630,000)
Balances at February 26, 1977	8,922,286	8,922,000	15,468,000	76,900,000
Sale of common stock under option plans, including $50,000 of income tax benefit resulting from options sold under non-qualified plans	19,505	20,000	260,000	
Net earnings				30,106,000
Cash dividends declared on common stock—$.81 per share				(7,236,000)
Balances at February 25, 1978	8,941,791	$8,942,000	$15,728,000	$99,770,000

See notes to financial statements.

Notes to Financial Statements

Super Valu Stores, Inc. and Consolidated Subsidiaries

A. Summary of significant accounting policies:

Consolidation:

The financial statements include the accounts of the Company and its subsidiaries with the exception of its wholly-owned finance subsidiary, Super Valu Development, Inc., which is carried at equity in net assets. Separate financial statements for Super Valu Development, Inc. follow these notes. All significant intercompany accounts and transactions are eliminated.

Inventories:

Inventories are stated at the lower of cost or market. Cost is determined through use of the last-in, first-out method (LIFO) for a major portion of wholesale food inventories (55.7% for 1978 and 45.2% for 1977 of the total cost of consolidated inventories), the retail inventory method in certain groups of retail stores and the first-in, first-out method (FIFO) for all other inventories. Market is considered as replacement value. If the FIFO method had been used to determine cost of inventories for which the LIFO method is used, the Company's inventories would have been $16,917,000 higher at February 25, 1978 and $12,024,000 higher at February 26, 1977. During fiscal 1978, the Company adopted the LIFO method of determining cost for additional wholesale food inventory categories, resulting in a $488,000 ($.05 per share) reduction in net earnings. Management believes that the LIFO method for such inventories more accurately reflects earnings in a period of rising prices by providing a better matching of cost and revenue.

Intangible assets:

Intangible assets consisting of goodwill, trademarks and customer lists with an original cost of $5,454,000 (carrying amount of $4,949,000) are being amortized over periods ranging from three to fifteen years using the straight-line method.

Property, plant and equipment:

Cost of buildings and equipment are depreciated over the estimated useful lives of the assets. Buildings and certain equipment (principally retail store equipment) are depreciated using the straight-line method. Remaining properties are depreciated on an accelerated basis. Useful lives generally assigned are: buildings—25 to 50 years; retail store equipment—eight years; warehouse, transportation and other equipment—three to 10 years. Costs of leasehold improvements are amortized individually over the period of the lease or the estimated useful life of the asset, whichever is shorter, using the straight-line method for retail properties and an accelerated method for warehouses. Expenditures for repairs and maintenance are charged against earnings. Additions and replacements are capitalized and depreciated. At the time of sale or retirement of property, plant and equipment, the difference between net book value and proceeds is charged or credited to earnings. Leased assets under capital leases are amortized over the related lease term using the straight-line method.

Checks outstanding, net:

Checks outstanding, net comprises the amount of checks which have been issued against future deposits and have not cleared the Company's bank accounts.

Leases:

The Company has retroactively adopted the requirements of Financial Accounting Standards Board Statement No. 13, Accounting for Leases.
This resulted in a reduction of retained earnings at February 28, 1976 totaling $3,918,000, and reduced net earnings for the years ended February 25, 1978 and Feburary 26, 1977 by $418,000 ($.05 per share) and $500,000 ($.06 per share), respectively.

Income taxes:

Provision is made for deferred income taxes and future income tax benefits applicable to timing differences between financial and tax reporting. These timing differences consist primarily of differences between book and tax depreciation, amortization and interest for financial statement purposes relating to capital leases and certain provisions for expenses which are not deducted for tax until paid. The federal investment tax credit is treated as a reduction of federal income taxes in the year in which the related property was put into service.

Retirement plans:

Substantially all non-union employees of the Company and its subsidiaries are covered by various non-contributory pension or profit-sharing plans.

A number of other employees are covered by pension plans under the provisions of collective bargaining agreements.

The total expense of all plans for the years ended February 25, 1978 and February 26, 1977 amounted to $5,047,000 and $3,658,000, respectively.

It is the Company's policy to fund pension costs accrued and to amortize past service costs over 30 years. The amount of that liability at the most recent valuation date, March 1, 1977, was $1,015,000. The total pension fund assets and balance sheet accruals exceeded the actuarially computed value of vested benefits at March 1, 1977.

Pre-opening costs:

Pre-opening costs of retail stores are charged against earnings as incurred.

Replacement cost (unaudited):

As required by the Securities and Exchange Commission, the Company has developed replacement cost information with respect to inventories and productive capacity. Reference is made to the Company's Annual Report, Form 10-K, a copy of which is available on request, for quantitative information with respect to the estimated replacement cost of inventories and productive capacity at February 25, 1978 and February 26, 1977 and the related estimated effect of such costs on cost of sales and depreciation expense for the years then ended. This information indicates that each of these amounts, on a replacement cost basis, is higher than corresponding amounts included in the financial statements. The methods used to calculate this information are not precise and the determination of replacement cost data only applies to selected accounts. Accordingly, the Company cautions against the use of replacement cost data alone to estimate future effects on costs and capital needs. In addition, such data may not be comparable with other companies because of different methods of determination and possible errors of estimation.

The Company places great emphasis on capital management and productivity as a means of counteracting the effect of inflation. The Company intends to continue placing emphasis in these areas.

Net earnings per share:

Net earnings per share are computed by dividing net earnings by the weighted average number of common shares outstanding. Outstanding stock options have no material effect on earnings per share.

B. Disposal of food service division:

Effective February 25, 1978, the Company disposed of the operations of its Harrison House food service division by selling three of its locations for cash totaling $9,358,000 net of liabilities retained, and discontinuing operations of the fourth one. Harrison House fiscal 1978 sales totaled $83,000,000, representing about 3 percent of Super Valu's total sales. The disposition, including operations for the year, resulted in an insignificant loss.

C. Long-term notes payable:

	February 25, 1978	February 26, 1977
7.90% promissory notes	$25,000,000	$25,000,000
8.50% mortgage note, payable in monthly installments of $26,975 including interest to April 1, 1997 (land and buildings pledged)	3,051,000	3,118,000
Other	424,000	141,000
	28,475,000	28,259,000
Due within one year	272,000	77,000
	$28,203,000	$28,182,000

The 7.90% promissory notes are due on March 15, 1992, and require annual payments of $2,100,000 from March 15, 1981.

The Company's long-term debt agreement relative to the 7.90% promissory notes includes restrictions on payment of cash dividends and acquisition of the Company's capital stock, except out of consolidated retained earnings available ($20,492,000 at February 25, 1978) for restricted payments, and a requirement that consolidated working capital be maintained at not less than $40,000,000.

Aggregate maturities of long-term notes payable during the next five fiscal years are:

1979—$ 272,000
1980—$ 183,000
1981—$ 92,000
1982—$2,199,000
1983—$2,206,000

D. Capital stock:

	Preferred	Common
Par value per share	None	$1.00
Number of shares—		
Authorized	1,000,000	15,000,000
Outstanding		
February 25, 1978	None	8,941,791
February 26, 1977	None	8,922,286

Notes *(Continued)*

E. Stock option plans:

The 1976 Executive Employees Stock Option Plan has reserved 200,000 shares of common stock which may be optioned and sold to key salaried executive employees at prices not less than 100 percent of fair market value on the date of grant. The 1976 Plan provides that the Board may determine, at the time of granting, whether each such option granted under the Plan will be a qualified or nonqualified stock option under the Internal Revenue Code. The term of each option will be determined by the Board of Directors, but cannot be more than five years for a qualified option and ten years for a nonqualified option, from the date of grant. Options may be exercisable in installments or otherwise, as the Board may determine.

Under the 1973 Executive Employees Stock Option Plan, a non-qualified stock option plan, a maximum of 200,000 shares of common stock may be optioned and sold to key salaried executive employees at prices not less than 100 percent of fair market value on the date of the grant. The term of each option shall be determined by the Board of Directors, but shall not be for more than ten years from the date of grant. Options may be exercised at such time or times as the Board of Directors may determine.

The 1970 Executive Employees Stock Option Plan reserved 150,000 shares of common stock for qualified option grants over a five-year period at not less than 100 percent of fair market value at the date of grant to key salaried executive employees. In general, options granted are exercisable 20 percent per year (cumulative) and expire five years after date of grant. Changes in the options were as follows:

	Shares		
	Reserved	Outstanding	Available
Balances at February 28, 1976	333,850	211,190	122,660
Adoption of 1976 Plan	200,000		200,000
Granted $7.10 to $19.07 per share		94,500	(94,500)
Exercised $7.10 to $18.82 per share	(40,370)	(40,370)	
Cancelled	(3,400)	(29,500)	26,100
Balances at February 26, 1977	490,080	235,820	254,260
Granted $7.10 to $23.82 per share		62,750	(62,750)
Exercised $6.91 to $23.81 per share	(19,505)	(19,505)	
Cancelled	(760)	(28,410)	27,650
Balances at February 25, 1978	469,815	250,655	219,160

	February 25, 1978	February 26, 1977
Option prices	$7.10 to $23.82	$6.91 to $19.07
Average option price	$13.46	$12.66
Shares exercisable	162,215	133,770

Options to purchase 51,600 shares of common stock at $7.10 per share have been granted which are exercisable in 1978 and 1979 only to the extent that earlier options of a like number at higher option prices held by certain employees expire.

In February 1978, the Board of Directors adopted (subject to stockholder approval) the 1978 Stock Appreciation Rights Plan. Under the Plan, holders of stock options may be granted stock appreciation rights for up to 50% of their options, which allow the holders to elect to receive a payment (either in cash or common stock or combination thereof) equal to the excess of the fair market value over the option price in lieu of exercising a stock option. Grants of rights under the Plan are at the discretion of a committee appointed by the Board of Directors. At February 25, 1978, no rights have been granted under the Plan.

F. Leases:

All noncancelable leases and subleases with an initial term greater than one year are included in this note and have been categorized as capital or operating leases in conformity with the definitions in Financial Accounting Standards Board Statement No. 13, Accounting for Leases.

Substantially all of the warehouse, retail and office facilities used or occupied by the Company are leased. Many of these leases include renewal options, and occasionally, but to a much lesser extent, some include options to purchase.

Capital leases are concentrated in wholesale food warehouse and office facilities, ShopKo general merchandise stores, corporate owned retail food stores and leased transportation equipment.

The following analysis represents property under capital leases:

	February 25, 1978	February 26, 1977
Buildings	$76,213,000	$80,895,000
Equipment	4,289,000	5,473,000
	80,502,000	86,368,000
Less accumulated amortization	27,266,000	26,210,000
	$53,236,000	$60,158,000

Amortization of property under capital leases was $4,879,000 and $4,883,000 in 1978 and 1977, respectively.

In addition to its capital leases, the Company is obligated under operating leases, primarily for County Seat leisure wear apparel stores, computers and certain Daytex stores whose operations were disposed of during fiscal 1977. Substantially all Daytex stores are sublet to the current operators.

Total rental expense related to all operating leases (including those with terms less than one year) were as follows:

	Fiscal year (52 weeks) ended February 25, 1978	February 26, 1977
Minimum rentals	$ 8,237,000	$6,499,000
Contingent rentals (based primarily on sales performance)	1,876,000	1,821,000
Sublease income	(91,000)	(55,000)
Total	$10,022,000	$8,265,000

Minimum future obligations on leases in effect at February 25, 1978 are as follows:

Capital leases (in thousands)

	Total	Building	Transportation Equipment
1979	$ 8,548	$ 7,734	$ 814
1980	8,384	7,640	744
1981	8,247	7,572	675
1982	7,832	7,412	420
1983	7,180	6,858	322
Later	64,167	64,116	51
Total minimum obligation	104,358	101,332	3,026
Less amount representing interest	(40,113)	(39,623)	(490)
Present value of minimum obligation	64,245	61,709	2,536
Less current portion	(4,004)	(3,387)	(617)
Long-term obligation at February 25, 1978	$60,241	$58,322	$1,919
Long-term obligation at February 26, 1977	$67,451	$63,037	$4,414

Operating leases (In thousands)

	Total	Buildings	Computers and Equipment	Sublet to Non-Affiliates
1979	$ 8,749	$ 7,324	$1,926	$ 501
1980	8,273	6,934	1,775	436
1981	8,204	6,826	1,752	374
1982	6,380	6,647	35	302
1983	6,081	6,265	23	207
Later	24,786	25,203		417
Total minimum obligation	$62,473	$59,199	$5,511	$2,237

The present values of minimum future obligations shown above are calculated based on interest rates (ranging from 3.27% to 9.21% with a weighted average of approximately 7.44%) determined to be applicable at the inception of the leases.

Interest expense on the outstanding obligations under capital leases was $5,119,000 and $5,111,000 in 1978 and 1977, respectively.

Contingent rental expense, based primarily on sales performance, for the capital leases was $741,000 and $583,000 in 1978 and 1977, respectively.

G. Acquisition:

Effective June 18, 1977 (the beginning of the second quarter), the Company purchased for cash of $19,633,000 and the assumption of certain liabilities, the business of Charley Brothers Company, a wholesale grocery firm headquartered near Pittsburgh, Pennsylvania. Intangible assets, including goodwill, were purchased for $5,454,000 and are being amortized over periods ranging from three to fifteen years using the straight-line method. The results of Charley Brothers Company operations since the effective date of the purchase are included in the operating results of fiscal 1978. The pro-forma effect of the inclusion of the operations of Charley Brothers Company for fiscal 1977 and 1978 is presented below. This pro-forma presentation considers amortization of the intangible assets purchased and, for periods prior to the purchase, an assumed interest cost relating to cash used to effect the purchase.

	Fiscal year (52 weeks) ended February 25, 1978	February 26, 1977
Net sales	$2,671,380	$2,361,527
Net earnings	31,551	26,004
Net earnings per share	3.53	2.92

Notes *(Continued)*

H. Commitments and contingent liabilities:

The Company has guaranteed the mortgage loan obligations (aggregate unpaid balance at February 25, 1978 of $1,894,000) of a third party in connection with a shopping center where the Company is a major lessee under a long-term lease agreement. The Company has also guaranteed the fixture financing loans totaling $2,018,000 of various franchised retailers. In addition, the Company is contingently liable under certain leases (present value totaling $4,872,000) assigned to the purchasers of its Harrison House food service division.

The two anti-trust actions alleging a conspiracy to pay producers and feeders of cattle uniform, arbitrary, non-competitive, low prices for meat products discussed in the fiscal 1977 report, have been dismissed. The dismissals are being appealed by the plaintiff.

I. Industry segment information:

Information concerning the Company's operations by business segment for the year ended February 25, 1978 as required by Financial Accounting Standards Board Statement No. 14, Financial Reporting for Segments of a Business Enterprise, is contained on page 18.

J. Unaudited quarterly financial information:

Unaudited quarterly financial information for the periods indicated is as follows:

Fiscal 1978

	First (16 wks)	Second (12 wks)	Third (12 wks)	Fourth (12 wks)	Year (52 wks)
Net sales	$686,329	$594,679	$640,570	$671,923	$2,593,501
Cost of sales	632,598	546,533	589,739	821,057	2,389,927
Net earnings	7,294	6,672	8,227	7,913	30,106
Net earnings per common share	.82	.74	.92	.89	3.37
Dividends declared per common share	.1650	.2150	2150	.2150	8100
Price range per common share	27-21⅝	27⅛-23	29⅝-23½	32¼-27⅛	32¼-21⅝

Fiscal 1977

	First (16 wks)	Second (12 wks)	Third (12 wks)	Fourth (12 wks)	Year (52 wks)
Net sales	$619,364	$483,529	$511,484	$519,172	$2,133,549
Cost of sales	572,204	447,110	471,705	478,490	1,969,509
Net earnings	5,392	4,686	5,294	6,464	21,836
Net earnings per common share	61	.52	.60	.72	2.45
Dividends declared per common share	.1375	.1650	.1650	1650	.6325
Price range per common share	19-12⅜	20¼-17⅞	22⅛-16⅞	24½-21	24½-12⅜

All figures except per share data in thousands

The above information has been restated to reflect the retroactive adoption, in the third quarter of fiscal 1978, of the requirements of Financial Accounting Standards Board Statement No. 13, Accounting for Leases, described in Notes A and F. The first three quarters of fiscal 1978 have also been restated to reflect a change to the last-in, first-out (LIFO) method of determining cost for additional wholesale food inventory categories described in Note A. As a result of these changes, net earnings for the first three quarters of fiscal 1978 were reduced as follows: first—$345,000 ($.04 per share); second—$283,000 ($.03 per share); third—$113,000 ($.01 per share) and quarterly net earnings for fiscal 1977 were reduced as follows: first—$154,000 ($.02 per share); second—$115,000 ($.01 per share); third—$115,000 ($.01 per share); fourth—$116,000 ($.02 per share).

Super Valu Development, Inc.

BALANCE SHEETS

	February 25, 1978	February 26, 1977
ASSETS		
Investment in direct finance leases (Notes A and C)	$73,671,000	$62,507,000
Receivables:		
Notes receivable (Note B)	13,176,000	6,372,000
Accounts receivable	1,422,000	3,262,000
Allowance for losses	(2,000,000)	(2,000,000)
Net receivables	12,598,000	7,634,000
Cash	4,000	1,000
	$86,273,000	$70,142,000
LIABILITIES AND STOCKHOLDER'S EQUITY		
Commercial paper	$ 6,309,000	
Accounts payable	905,000	$ 837,000
Federal and state income taxes	52,000	188,000
Due parent	3,629,000	5,594,000
Obligations under capital leases (Notes A and C)	72,433,000	61,522,000
Total Liabilities	83,328,000	68,141,000
Common stock ($1.00 par value; 25,000 shares authorized, 1,000 shares issued)	1,000	1,000
Capital in excess of par value	2,000,000	2,000,000
Retained earnings	944,000	
Total stockholder's equity	2,945,000	2,001,000
	$86,273,000	$70,142,000

STATEMENT OF EARNINGS

	Fiscal Year (52 weeks) ended February 25, 1978	Fiscal Year (52 weeks) ended February 26, 1977
Finance charges and other income, net	$ 8,017,000	$ 7,364,000
Expenses:		
Selling and administrative	209,000	
Interest	5,867,000	4,942,000
Earnings before income taxes	1,941,000	2,422,000
Provision for income taxes (Note A):		
Currently payable	901,000	1,370,000
Deferred	96,000	51,000
	997,000	1,421,000
Net earnings	$ 944,000	$ 1,001,000

CHANGES IN FINANCIAL POSITION

	Fiscal year (52 weeks) ended February 25, 1978	Fiscal year (52 weeks) ended February 26, 1977
Sources of funds:		
Net earnings	$ 944,000	$ 1,001,000
Additions to obligations under capital leases	10,911,000	6,634,000
Increase in commercial paper	6,309,000	
Decrease in due to parent	(1,965,000)	(2,535,000)
Increase in accounts payable	68,000	179,000
Increase in cash	(3,000)	
Total	$16,264,000	$ 5,279,000
Application of funds:		
Increase in direct finance leases	$11,164,000	$ 6,835,000
Increase (decrease) in notes receivable	6,804,000	(929,000)
Decrease in accounts receivable	(1,840,000)	(439,000)
Decrease (increase) in federal and state income taxes	136,000	(188,000)
Total	$16,264,000	$ 5,279,000

Notes to Financial Statements

A. Summary of significant accounting policies:

Business:

Super Valu Development, Inc., a wholly owned finance subsidiary of Super Valu Stores, Inc., was established as of February 26, 1977 and conducts virtually all of the financing activities associated with the independent retailers doing business with Super Valu Stores, Inc. Net earnings

per share data is not shown as the company is a wholly-owned subsidiary. Results of operations for fiscal 1978 include intercompany charges related to various general and administrative expenses and periodic interest charges based on the average outstanding balance of the intercompany account totaling $569,000. Fiscal 1977 includes intercompany interest charges of $381,000.

Leases:

The Company has retroactively adopted the requirements of Financial Accounting Standards Board Statement No. 13, Accounting for Leases. This increased net earnings for the years ended February 25, 1978 and February 26, 1977 by $111,000 and $99,000 respectively.

Income taxes:

The accounts of Super Valu Development, Inc. are included in the consolidated federal income tax return of Super Valu Stores, Inc. Provision is made for deferred income taxes applicable to timing differences between financial and tax reporting consisting primarily of differences between book and tax revenue recognition and capitalization for financial statement purposes of leases considered direct financing leases.

B. Notes receivable:

Notes receivable relate to fixture and other financing relative to independent retail food operations. Such notes range in length from one to seven years and may be non-interest bearing or bear interest rates ranging from 5% to 15%. The majority of these notes were assigned to Super Valu Development, Inc. by Super Valu Stores, Inc. with no recourse.

Included in notes receivable are amounts due beyond one year totaling $9,691,000 for 1978 and $4,442,000 for 1977. Notes receivable were reduced for unearned financing charges of $3,231,000 and $3,808,000, respectively, at these dates. Unearned financing charges are amortized to earnings using the sum-of-the-years-digits method.

C. Direct financing leases:

The Company leases properties for subletting to certain affiliated retailers for periods generally not exceeding 20 years. These leases have been assigned to Super Valu Development, Inc. by Super Valu Stores, Inc. who will continue to remain primarily liable for payments thereon. Many of these leases and subleases include renewal options and occasionally, but to a much lesser extent, some include options to purchase. Certain leases include provisions for rent in addition to minimum annual rentals based on certain contingencies such as sales performance.

A schedule of minimum future rentals to be received under direct financing leases and minimum future obligations under capital leases in effect at February 25, 1978 follows. All leases are for buildings.

	Direct financing lease rentals receivable	Capital lease obligations
	(In Thousands)	
1979	$ 11,743	$ 10,929
1980	11,128	10,397
1981	10,490	9,791
1982	9,749	9,115
1983	9,129	8,457
Later	79,885	73,261
Total minimum obligation	132,124	121,950
Less unearned income	58,453	
Less amount representing interest		49,517
	$ 73,671	$ 72,433

The current portion of the capital lease obligation due in 1979 is $5,336,000.

Contingent rental income was $1,405,000 and $1,039,000 for 1978 and 1977, respectively. Contingent rent expense was $886,000 and $583,000 in 1978 and 1977, respectively.

Accountants' Report

Stockholders and Board of Directors
Super Valu Stores, Inc.
Hopkins, Minnesota

We have examined the balance sheets of Super Valu Stores, Inc. and consolidated subsidiaries as of February 25, 1978 and February 26, 1977, and the related statements of earnings, stockholders' equity and changes in financial position for the years (52 weeks) then ended. We have also examined the balance sheets of Super Valu Development, Inc. (wholly-owned unconsolidated finance subsidiary) as of February 25, 1978 and February 26, 1977 and the related statements of earnings and changes in financial position for the years (52 weeks) then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the financial position of Super Valu Stores, Inc. and consolidated subsidiaries, and the financial position of Super Valu Development, Inc. at February 25, 1978 and February 26, 1977, and the respective results of their operations and changes in their finanical position for the years (52 weeks) then ended, in conformity with generally accepted accounting principles applied on a consistent basis after restatement for the change, with which we concur, in the method of accounting for leases, as explained in Note A to the financial statements.

Touche Ross & Co.

Certified Public Accountants

Minneapolis, Minnesota April 4, 1978

Officers

Jack J. Crocker
Chairman, President and Chief Executive Officer

George W. McKay
Vice Chairman of the Board

Michael W. Wright
Executive Vice President

John E. Morrissey
Senior Vice President, Distribution

James L. Slovick
Senior Vice President, Finance, Treasurer

Paul J. van Helden
Senior Vice President, Planning, Information Systems

William S. Bailey
Vice President

L. Rex Burns
Vice President

Homer A. Childs
Vice President and Secretary

Thomas L. Dekko
Vice President, Sales

Charles D. Dugan, Jr.
Vice President, Legal

John B. Ferris
Vice President, Controller

Gene D. Hoffman
Vice President, Marketing President, Super Valu Wholesale Food Companies

Robert R. Hosokawa
Vice President, Communications and Personnel

Lowell J. Janke
Group Vice President

Donald F. Murphy
Group Vice President

John J. Prior
Vice President, Labor Relations

William J. Tyrrell
Vice President

O. Rawley Thomas
Assistant Treasurer

Peter Dorsey
Counsel

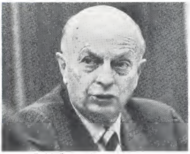
Directors

Jack J. Crocker
Chairman, President and
Chief Executive Officer

George W McKay
Vice Chairman of the Board

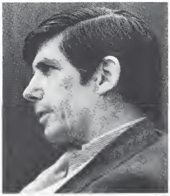
William S Bailey
Vice President,
President County Seat Stores, Inc.

Homer A Childs
Vice President and Secretary



James P McFarland
Retired Chairman
General Mills, Inc.

Morris Lewis, Jr.
Retired, Chairman of the
Executive Committee

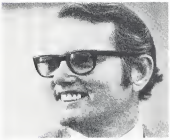


John E Morrissey
Senior Vice President

Robert W Mueller
Retired Publisher of
Progressive Grocer Magazine
Consultant to the Food Industry

Milton Perlmutter
President
Supermarkets General Corp.
(Deceased March 15, 1978)

James H Ruben
Group Vice President
General Mills, Inc.



James L. Slovick
Senior Vice President
Treasurer

Paul J van Helden
Senior Vice President

Arnold R Weber
Provost
Carnegie-Mellon University

Albert R Whitman
Retired President
Campbell-Mithun, Inc.

Michael W Wright
Executive Vice President

James T Wyman
Retired President
Super Valu Stores, Inc.

Super Valu Annual Report

Our Philosophy

The management philosophy of Super Valu is and will continue to be a total commitment to serving customers more effectively than anyone else could serve them. We see the achievement of this meaningful goal as a continuing and overriding effort from which every corporate activity must evolve.....

Annual Meeting

Stockholders are invited and encouraged to attend the Annual Shareholders' Meeting which will be held in the Conference Theater on the street level of the IDS Center, 7th and Marquette, Minneapolis, Minnesota on Tuesday, June 27, 1978 at 10 A.M. Minneapolis time.

Transfer Agents

First National Bank of Minneapolis
Minneapolis, Minnesota 55440

Morgan Guaranty Trust of New York
New York, New York 10015

Registrars

Northwestern National Bank of Minneapolis
Minneapolis, Minnesota 55440

Chemical Bank
New York, New York 10015

Stock Exchange

The company's Common Shares are listed on the New York Stock Exchange (trading symbol SVU).

Form 10-K

A copy of the annual report to the Securities and Exchange Commission on Form 10-K may be obtained without charge to shareholders from the Secretary's Office after May 30, 1978.

SUPER VALU STORES, INC.
101 Jefferson Ave. South
Minneapolis, Minnesota 55343

Composition of Net Sales and Earnings Before Income Taxes

Super Valu Stores, Inc. and Consolidated Subsidiaries

The following table sets forth, for each of the last five fiscal years, the composition of the Company's net sales and earnings before income taxes and, for 1978 and 1977, information required by Financial Accounting Standards Board Statement No. 14, Financial Reporting for Segments of a Business Enterprise ($ in thousands).

Net sales:	1974	1975	1976	1977	1978
Food store operations	$1,372,917 94.7%	$1,540,110 93.9%	$1,684,930 92.5%	$1,953,981 91.6%	$2,346,680 90.5%
Retail general merchandise operations	76,156 5.3%	100,000 6.1%	136,314 7.5%	179,568 8.4%	246,821 9.5%
Total net sales	$1,449,073 100.0%	$1,640,110 100.0%	$1,821,244 100.0%	$2,133,549 100.0%	$2,593,501 100.0%
Operating earnings before income taxes:					
Food store operations	$ 26,494 96.5%	$ 30,282 88.4%	$ 36,170 83.9%	$ 38,780 70.3%	$ 50,533 69.3%
Retail general merchandise operations	956 3.5%	3,989 11.6%	6,969 16.1%	16,413 29.7%	22,370 30.7%
Total operating earnings	27,450 100.0%	34,271 100.0%	43,139 100.0%	55,193 100.0%	72,903 100.0%
Interest and debt expense	(3,437)	(4,424)	(8,536)	(7,476)	(7,450)
General corporate expenses	(7,672)	(8,657)	(8,682)	(7,393)	(8,368)
Earnings before income taxes	$ 16,341	$ 21,190	$ 25,921	$ 40,324	$ 57,085
Assets identified to segments:					
Food store operations				$ 204,510	$ 247,810
Retail general merchandise operations				65,868	96,692
Corporate				61,022	48,309
Total				$ 331,400	$ 392,811
Depreciation and amortization:					
Food store operations				$ 10,561	$ 14,484
Retail general merchandise operations				3,559	4,503
Corporate				362	336
Total				$ 14,482	$ 19,323
Capital expenditures:					
Food store operations				$ 18,040	$ 34,857
Retail general merchandise operations				9,519	14,601
Corporate				445	353
Total				$ 28,004	$ 49,811

The Company's food store operations include wholesale sales to independently owned and operated food stores, retail sales by food stores owned by the Company and, until the February 25, 1978 sale of its food service division (note B to financial statements), wholesale sales to institutional food customers, along with the operations of several allied service operations throughout the United States Retail general merchandise operations include discount department stores and leisure wear apparel stores also in the United States

Industry segment operating earnings were computed as total revenue less associated operating expenses, which exclude general corporate expense, interest and other debt expense and income taxes

Identifiable assets are those assets of the Company directly associated with industry segments and exclude short-term investments, accumulated income tax timing differences and other corporate assets Identifiable assets do not include operating leases relative to leisure wear apparel stores If these leases were construed to be capital leases, retail general merchandise assets and total assets would be increased $34,100,000 for 1978 and $28,759,000 for 1977

See notes following Ten Year Financial Operating Summary and notes to the financial statements Note e following the Ten Year Financial and Operating Summary explains the large increase in interest and debt expense for 1976, 1977 and 1978.

Management Discussion

Net earnings applicable to common and common equivalent shares	Weighted average number of shares outstanding	Net earnings per common share	Dividends declared per common share	Federal investment tax credit
$30,106	8,933	$3.37	$.81	$1,450
21,836	8,896	2.45	.63¼	1,125
13,960	7,964	1.75	.52½	750
11,061	7,678	1.44	.42½	400
9,141	7,678	1.19	.38½	800
8,428	7,702	1.09	.38	748
7,997	7,706	1.04	.36⅔	220
5,824	7,684	.76	.36⅔	81
4,805	7,674	.63	.36⅔	226
5,004	7,674	.65	.36⅔	323

Current ratio	Fixed asset expenditures (net)	Depreciation and amortization	Merchandise inventories	Number of employees
1.34:1	$40,687	$19,323	$158,931	12,270
1.51:1	21,673	14,842	125,378	11,575
1.51:1	13,020	12,456	113,559	9,450
1.76:1	5,961	7,127	96,936	9,258
1.80:1	10,003	6,891	97,835	9,368
1.82:1	11,860	6,058	78,200	9,072
2.01:1	10,897	5,099	63,594	7,803
1.84:1	6,191	4,344	51,985	7,122
1.74:1	6,746	3,684	45,634	6,563
1.84:1	5,165	3,144	42,494	5,910

Fiscal 1978 compared with fiscal 1977

Net sales for 1978 exceeded the prior year by $459,952,000 (21.6%) and cost of sales increased $420,418,000 (21.3%). Sales of the Company's food store operations increased $392,699,000 (20.1%), principally due to greater volume, the June 18, 1977 acquisition of the Charley Brothers Company (Note G) and to a lesser extent, price increases. If the results of the Charley Brothers Company had been included in both years food store sales would have increased $309,853,000 (13.1%). Retail general merchandise sales increased $67,523,000 (37.5%). These sales include the results of 33 County Seat Stores and two ShopKo general merchandise stores opened during the year. Remaining County Seat and ShopKo stores also reflected volume increases.

Selling and administrative expenses increased by $22,799,000 (19.6%) as a result of increased volume.

The small increase in the effective tax rate results from a slightly higher average state tax rate.

Fiscal 1977 compared with fiscal 1976

Net sales for fiscal 1977 exceeded the prior year by $312,305,000 (17.1%) and cost of sales increased $297,719,000 (17.8%). Sales of the Company's food store operations increased $269,051,000 (16.0%) principally due to greater volume and, to a lesser extent, price increases. Retail general merchandise sales increased $43,254,000 (31.7%). Adjusting for sales of the Daytex fabric store operations which were disposed of in fiscal 1977 general merchandise sales increased 45.0%. These results include sales of 80 County Seat stores opened during the year. ShopKo general merchandise stores and remaining County Seat stores also reflected volume increases.

Gross profit as a percent to sales decreased slightly, due principally to lower wholesale food margins.

Selling and administrative expenses were greater by only $1,849,000 (1.6%). Expense increases resulting from County Seat expansion were substantially offset by the disposition of Daytex and certain retail food operations. Also, the 1976 amount includes $3,890,000 of reserves provided for the cost of disposition of the Daytex fabric store operations.

Interest and other debt expense declined $1,060,000 (12.4%) due to pre-payment in fiscal 1976 of long-term bank loans with the proceeds of the Company's November 25, 1975 stock offering. The effective tax rate is slightly lower due to greater investment tax credit.

Ten-Year Financial and Operating Summary

Super Valu Stores, Inc. and Consolidated Subsidiaries

	Net sales	Cost of sales	Interest and other debt expense	Provision for income taxes	Net earnings	Net earnings as percent to net sales	Dividends on preferred stock
1978	$2,593,501	$2,389,927	$7,450	$27,923	$30,106	1.16	
1977 (e)	2,133,549	1,969,509	7,476	19,489	21,836	1.02	
1976 (c,d,e)	1,821,244	1,671,790	8,536	12,567	13,960	.77	
1975 (b)	1,640,110	1,515,451	4,424	10,471	11,061	.67	
1974	1,449,073	1,344,527	3,437	7,534	9,141	.63	
1973	1,221,253	1,132,205	2,494	6,694	8,447	.69	$19
1971	1,022,386	945,507	2,089	7,181	8,029	.79	32
1970	859,760	795,296	1,747	5,574	5,857	.68	33
1969	806,960	751,452	1,483	4,781	4,839	.60	34
1968	750,968	704,717	778	4,712	5,040	.67	36

	Common shares outstanding (end of year)	Number of common stockholders	Common stockholders' equity	Percent of return on common stockholders' equity (yearly average)	Stockholders' equity per share of common stock (end of year)	Net working capital
1978	8,942	4,659	$124,440	26.66	$13.92	$60,492
1977 (e)	8,922	4,551	101,290	23.50	11.35	68,584
1976 (c,d,e)	8,886	4,226	84,576	19.15	9.52	62,691
1975 (b)	7,678	3,850	61,208	18.18	7.97	65,051
1974	7,678	3,827	56,946	16.97	7.42	59,889
1973	7,678	3,498	50,761	17.54	6.61	51,596
1971	7,676	3,499	44,587	19.04	5.81	47,134
1970	7,660	3,246	39,758	15.46	5.19	37,445
1969	7,614	3,146	36,006	13.98	4.73	30,747
1968	7,530	3,245	33,202	15.90	4.41	31,160

NOTES:

a) Each of the years had a duration of 52 weeks except the years ended February 28, 1976 and January 1, 1972 which covered a period of 53 weeks. Amounts in thousands except per share and percentage figures, number of employees and number of common stockholders.

b) During fiscal 1975, the Company adopted the LIFO method of determining cost for a major portion of wholesale food inventories. This change had the effect of reducing these inventories at February 22, 1975 by $7,971,000 and net earnings by $3,874,000 ($.50 per share) for the year then ended. Because of this change, financial statements for fiscal years prior to fiscal 1975 are not comparable with those of any subsequent year.

c) The Company disposed of its retail fabric business during fiscal 1977. A reserve to cover the related costs was established during fiscal 1976. This reserve, together with Daytex operating losses reduced fiscal 1976 earnings $2,348,000, or 29 cents per common share.

d) Net earnings are before the cumulative effect of adopting Financial Accounting Standards Board's Statement 13—Accounting for Leases. The cumulative effect totaled $3,538,000 ($.44 per share) resulting in restated net earnings of $10,422,000 ($1.31 per share). It was not practical to restate years prior to fiscal 1976.

e) Various amounts and statistics for fiscal years 1977 and 1976 have been restated, as a result of the retroactive adoption of Financial Accounting Standards Board, Statement 13, Accounting for Leases. See notes A and F to financial statements.

f) See notes to financial statements.

Profit Centers

Left. Super Valu leisure apparel chain, County Seat, carries a full line of popular Levi's® products. Below. ShopKo Stores, the company's general merchandise chain, opened two new stores in fiscal 1978. Grand opening festivities included a rose for every lady.

At year end Super Valu served 1,971 retail supermarkets located in 24 states.

Bismarck Division
Marvin E. Erdmann
President
707 Airport Road
Bismarck, North Dakota 58501

Charley Brothers Company
Frederick J. Charley
President
P.O. Box 700
Greensburg, Pennsylvania 15601

Chastain-Roberts Division
Thomas J. Peterson
President
Roberts Drive, Industrial Park
Anniston, Alabama 36201

Des Moines Division
L. Rex Burns, *Chairman*
Laurence Anderson, *President*
3900 N.W. 106th Street
Des Moines, Iowa 50322

Fargo Division
Kenneth M. Kegerreis
President
1402 39th Street No.
Fargo, North Dakota 58102

Food Marketing Corporation Division
Richard B. Sturges
President
4815 Executive Boulevard
Interstate Industrial Park
Fort Wayne, Indiana 46801

Green Bay Division
Michael L. Horn
President
451 Joannes Avenue
Green Bay, Wisconsin 54305

J. M. Jones Company
George H. Thomazin
President
2611 N. Lincoln Avenue
Urbana, Illinois 61801

The Lewis Grocer Company
Celian H. Lewis
President
P.O. Box 670
Indianola, Mississippi 38751

Minneapolis Division
Lowell J. Janke
President
101 Jefferson Avenue So.
Hopkins, Minnesota 55343

Plainfield Distribution Center
Phillip A. Dabill
General Manager
U.S. Route 30—143rd Street
Plainfield, Illinois 60544

Xenia Division
Kenneth C. Techau
President
1003 Bellbrook Avenue
Xenia, Ohio 45385

County Seat Stores, Inc.
William S. Bailey
President
8816 70th Avenue No.
Brooklyn Park, Minnesota 55428

Planmark
Lloyd Stenbeck
Director
121 Washington Avenue So.
Hopkins, Minnesota 55343

Preferred Products, Inc.
Herbert P. Asselstine
President
312 Lake Hazeltine Drive
Chaska, Minnesota 55318

Risk Planners, Inc.
Dan A. McCoy
President
3601 Park Center Boulevard
St. Louis Park, Minnesota 55416

ShopKo Stores, Inc.
William J. Tyrrell
President
2800 South Ashland
Green Bay, Wisconsin 54304

Studio 70
William A. Pearson
Manager
145 Washington Avenue So.
Hopkins, Minnesota 55343

locations and even doubling or tripling the chain's volume of business.

The free enterprise system has outperformed and outproduced any other in the world. It has provided more goods for more people and more jobs in better conditions. It has left people free to control their own lives, produce at the rate they choose, and to reap the benefits of their labor.

Ken Chupita
Corporate Director of Financial Planning

Where does business go from here?

by Ken Chupita

Judged by most standards, our private enterprise system is a success. It has produced not only benefits for the few, but a better standard of living and freer, more humane life for the many—and that has to be the bottom line when you measure economic success or compare economic systems. But is it enough? Success breeds ever greater expectations, and many think our economic system can be improved.

Increasing numbers of people know more about business today than ever before, and many don't like what they see. Some don't accept the profit motive, the keystone of any market economy. Others don't agree with the values of business, arguing that its level of fair play and responsibility is too low. Still others feel the system serves private interests to the exclusion of public concerns.

These issues deserve to be addressed since they can affect the economic freedom of each of us. The business community has been reluctant to address them in the open forum, thinking that the sole job of business is business. Executives need to do more—not for defensive reasons but because answering the public's concerns is the responsibility of business leaders. They need to openly discuss and debate the merits of the system as well as become more diligent in keeping their own houses in order.

Americans need reminders that the process of seeking a profit is not a form of villainy. It's a legitimate endeavor which is never unethical when both sides of the contract benefit, and no one's caught in between. Profits are needed in a market economy as an incentive for risking one's capital, and this fact will disappear only if we scrap our economic system.

Making a buck not only provides a competitive edge to our economy, but also totally supports our society. Without profits there'd be no foreign aid, little welfare, few campuses. Without profits there'd be no foundations, and retirement would remain nothing but a dream.

But there's more to business than profits. Corporations influence our lives as never before. The goods and services they offer, the employment they provide, the taxes they pay, the entertainment they support, affect us all. That's why the public is concerned with how business conducts itself. Corporate management may not enjoy living in a goldfish bowl, but such scrutiny helps assure that all segments of this country remain socially responsive.

For business this means becoming more mindful of social needs as well as economic opportunities. People expect fairness, integrity, respect for law and social responsibility. These expectations are just as real and just as important as any economic need. Companies must recognize that they are truly successful only when operated for the benefit of all interested parties.

Economic freedom is a delicate commodity. Like clean air, it is not usually appreciated until it begins to run out. If business is unresponsive to the legitimate concerns of society, government will fill the void, and even more of this freedom will be lost. I hope this doesn't happen. I hope business won't rest on past laurels. If executives choose to accept a more broadly defined role, our economic system will remain strong and competitive.

economy will never produce goods and services as efficiently as a free enterprise economy. Growth comes from increases in capital stock: more trucks, factories, milling machines, higher-powered tractors. Capital stock cannot be improved without a surplus called profit, which comes through increased efficiency. A free enterprise economy will generate surplus to be reinvested to create jobs and earnings.

Second, our society is in general, a pleasant, open society with good feelings towards neighbors and open hearts to strangers—the ideal of the Good Samaritan has not been lost. As we move toward a society in which an individual's affluence is based on his own, or his region's political influence, more frictions arise.

Regulation encourages regions, industries or factions to gain advantage through political power, not through freely-entered contracts. The open American society will not be the same when every region or industry must be concerned with the political strength of every other region or industry.

Third, political power will be increased and concentrated in fewer hands. Our founding fathers established separation of powers in our Constitution. They believed that a government which allowed each citizen the widest choice in his personal life would endure.

The path of regulatory strangulation is well-traced. Regulation is initiated to protect an industry. The more it is regulated, the more inefficient it becomes until subsidies are needed for survival. An industry which relies on regulation and subsidy must expect that its decisions will be subject to political review and approval.

The conclusion from these three major implications of the trend to regulation is that if it continues, society and business will undergo major changes. These changes will not be welcome. With all the recent criticism made of our society, it still is the most efficient, open, peace-loving society in the world.

Many of the evils of regulation could be eliminated if new regulations were judged by their cost-benefit ratio. The weighing of costs and benefits for every activity is the key to business success. The elimination of arbitrary, costly and ineffective regulations could have an immediate impact on inflation, and in the long run, on our way of life.

Robert Baesler
Retailer,
Terre Haute,
Indiana

We enjoy the benefits of our labor

by Robert Baesler

We Americans have many blessings. Among them is one which many times we take for granted. This blessing, the free enterprise system, is the greatest single source of our country's economic success.

In the past, America's attraction had always been the opportunity for an individual to get ahead on his merits and the chance to be master of his own destiny. Today we are anything but a nation of small businessmen. America's economic power is concentrated in the hands of a relatively small number of large corporations.

Even though this is the situation, it's good to know that the small grocer is alive and doing well, thanks to his own entrepreneurial initiative and to progressive wholesalers like Super Valu. Through Super Valu's many services like store development, retail accounting, field representatives, and their tremendous buying power, the small retail grocer can be competitive.

Super Valu in itself is an excellent model of the free enterprise system. What distinguishes free enterprise from other economic systems is the individual owning his own tools of production whether it be manufacturing or retailing.

In Super Valu's framework, unlike the chain operation, the retail grocer owns and operates his own business. That, coupled with Super Valu's buying power, allows many small retail grocers in this country to compete successfully on a head-to-head basis with large corporate chains. In many cases, these retail grocers are taking over deserted chain

Linda Runbeck
County Seat
Advertising Manager

Choice, risk taking and rewards

by Linda Runbeck

Something so simple as the freedom to make choices is where the real meaning of the free enterprise system lies for me.

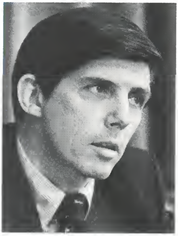
Under what other system can one choose the type of education to pursue? What other system allows one to select a career simply because it holds special interest? Where else can one switch careers in favor of a totally new option?

My original career choice was social work. Where it had appeared to offer great personal challenge, I found it required only passable performance and little opportunity for realistic goal-setting and accomplishments. I chose to seek a career which I believed demanded more and offered more.

Under what other system can one choose the level of risk or responsibility he or she desires? As an employee at Super Valu where I began as a secretary and now at County Seat, I chose responsibility and challenge. I desired the opportunity to grow and be tested. The motivational factor underlying the free enterprise system has demonstrated itself to me. During no other period in my life have I been so continuously stimulated or have I demanded more of myself.

Of course, inherent in the notion of choice also lies the possibility for failure. The system provides no guarantees, and it implies that the bigger the risk, the bigger the potential loss. It bases few rewards on past performance. Obviously, there are individuals as well as societies that can't operate under this uncertainty or are fearful of the risks. The system, I think, offers them a fate of monotony and mediocrity.

It is the spirit of free enterprise which opens up the possibility for individuals to achieve the goals and the happiness they desire. It is the spirit of the free enterprise system which has made our society so strong, so innovative, so goal-oriented and successful. It holds for each of us the promise of a rich and productive life if we choose to pursue and take the risks. This is a fantastic promise.



John E. Morrissey
Senior Vice President

Over regulation–a deep concern

by John E. Morrissey

Super Valu has had another excellent financial year. One principal reason for this success is that Super Valu operates under a free enterprise system which encourages every member of the Super Valu organization to search constantly for ways to utilize labor and equipment more productively. The objective is to serve customers better every day.

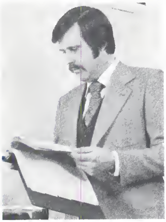
There always have been many regulations governing business—the hours of closing, licenses, and the like. What is changing is that the range of decisions which business and private citizens may make and those which government regulatory agencies make for them. The relative proportion of activities in business and in personal life which are regulated have enlarged so rapidly that we are shifting from a society and an economy in which regulations are a minor annoyance and free enterprise our way of life, to one in which the reverse is true.

This trend has three major implications which will substantially alter the America our children will live in.

First, our expectations of continued rapid economic advancement will not be met. A regulated

It is amazing how rapidly the little incidentals become costly, so it is our discriminating decisions that are important financially. Hiring, training and retaining co-workers are a few other personal ways in which our decisions become visible. It is a real enrichment to work with others on a day-to-day basis. Genuine concern for the well-being of others gives us the opportunity of being almost like a family. As independent retailers we tend to stay in one community for many years, making us responsible citizens aware of the need for public support as well as for supporting the public.

Responsibility is not only to ourselves. We are responsible to our employees and mostly to our customers. Free enterprise? Yes, but as with all freedoms come many responsibilities. These responsibilities are the great challenges independent retailers have accepted. With the support of each other and the grace of God, I am confident we can all meet these challenges and make this a socially beneficial free enterprise system.



Ron Tortelli
Personnel Director, ShopKo

Seek entrepreneurial talent

by Ron Tortelli

Of the many freedoms we enjoy, I believe the one most important to the success we have had, and hoped for, is our free enterprise system. Although it has been criticized and interfered with, the system has survived and prospered.

The pressures it has been subjected to have only increased the determination of its advocates to make it work. Some people have questioned its ultimate survival, yet I see it growing stronger. I am of the opinion that the vitality of the free enterprise system is, ultimately, dependent upon the availability and performance of individuals with entrepreneurial talent.

Entrepreneurs have no commonality of education, age, experience, family background, sex, race or career orientation. Rather they can be characterized as individuals who assume leadership roles in management, who have new ideas, recognize opportunity, inspire change, take risks and who are turned on by and accept the challenge of survival and growth.

In our business we have a tremendous continuing need to identify, attract and retain entrepreneurs. This is because we are in the service industry and are responsible for providing products to virtually all people in the face of severe competition. I believe that a company's chances for success are proportionate to the entrepreneurial talents of its employees.

In our company we have been fortunate because we have been able to develop more than half of our management from within. Many of these were hourly employees who exhibited entrepreneurial abilities, were identified and allowed to grow and develop and assume major leadership roles in our company.

Our approach to operating our business is to have all management employees share in decision making, risk taking, trying new ideas and overall, to be involved in "a piece of the intellectual action." People do make mistakes. They are costly at the moment, but we view them as part of the learning process. We have found these are overshadowed by the many right judgments made.

Developmental programs should not be designed to train entrepreneurs, but rather to provide the climate and to expose them to the business we are in. The business leadership of today cannot expect prospective entrepreneurs to walk precisely in their footsteps. Allowed to seek their own way, to stumble and at times fall, the neophyte entrepreneur ultimately will achieve and exceed what we have accomplished.

cooperative action so long as the endeavor is confined to methods for improving internal plant efficiency and/or achieving lower prices. These cooperative actions can be beneficial to the employer, the employee and the consumer.

The problems of cooperative action are not easily solved. Management is responsible for obtaining maximum efficiency, but at the same time it is deprived of sole jurisdiction over functions which it considers necessary for efficient operations. Unions are charged with the responsibility of protecting the jobs of their members and improving conditions of work, but cooperation with management might result in lower wages and loss of jobs. Neither an employer nor a union will undertake a cooperative program unless each expects to gain from it. Management and union responsibilities are not always compatible, but when they do attempt to cooperate, such action must be based upon a frank acceptance of divergent interests and recognition that the ultimate well-being of all concerned is dependent upon efficient operation.

If America should continue to have political democracy and a free enterprise economy, I believe it essential that the great mass of workers be committed to the preservation of this system. Yet such a commitment cannot exist if workers feel that their rights are not respected, and they do not get their fair share of the rewards.

By giving employees protection against arbitrary treatment and by reinforcing their hope of continuous future gain, unions have helped to assure that the values of our society are broadly based and that any disagreements will be negotiated within the framework of agreement.

I cannot say that the economic losses imposed by unions on companies are too high a price to pay for the union's successful performance. There certainly would be more complete approval of the non-economic aspects of trade unionism if there were less corruption and more democracy in unions. I believe that if the process and structure of unions were revised, the demands would be more honest and better understood. One simple proposal would be to provide that no union leader in a national, regional or local level, could serve in office unless he were subject to a secret ballot of the membership.

A broad approval of our system of collective bargaining does not imply that there could not be improvement in unions, but this should come through voluntary change within the union or through development of public policy.

Unions are helping to shape public policy in areas far removed from collective bargaining. By proposing or supporting such measures as aid to chronically depressed areas, public-financed care of the aged and other government subsidized welfare programs, unions are acting as a social conscience for the American economy. By keeping the issues alive, unions can insure that we will not become complacent about those groups who are being left behind. In this role of social conscience, more than in collective bargaining, unions can make their most significant contribution to our free enterprise society.

Kim A. Klocke
Retailer,
Decorah, Iowa

The independent retailer's challenge

by Kim A. Klocke

A bag boy? A bookkeeper? A good neighbor? A merchant? Yes, as a manager of an independently owned and operated supermarket, these are just a few of the roles we have accepted. Being independent, I believe, is the optimum of the free enterprise system we have in America today.

Being independent grocers, we have to answer only to ourselves, not to a higher governing body. Our pride in doing the best we can should be the strongest drive we have as managers. What and how we do as businessmen is reflected in our ability to keep our heads out of water and not go broke. Our stores provide direct evidence of our individuality in ideas and decisions.

Our basic responsibility is to make available a product or service to the most demanding consumer in history at a fair and competitive price. The sale is just one of the many responsibilities we have as far as managerial skill is concerned.

on color, religion, political attitudes or lifestyles. Rather, a realistic judgment must be based solely on the measurable productivity of short and long-term financial performance coupled with responsible behavior.

I know of no better system than ours to provide opportunities for bringing together people of different educational, geographical, religious and political backgrounds and to provide the incentive to work productively towards a common objective. Efficiency and productivity are the by-products of our business system because, when all is said and done, society can only share what it collectively produces.

Carolyn Skovbroten
Secretary,
Home Office Sales Dept.

Free enterprise and the quality of life

by Carolyn Skovbroten

I was a college student during the height of the Vietnam War. My generation protested a war we believed unjust, and we marched with placards scrawled with words like Peace, Love, Brotherhood and Freedom (at least the freedom to do our own thing).

This was also a time of inner turmoil, of youth questioning traditional beliefs. In the academic environment in which I came of age, the system of free enterprise for profit was regarded with some suspicion. Many of us thought that emphasis on profit limited private industry's social responsibility and that competition encouraged a wasteful proliferation of products.

Private industry stood accused of wrongfully allocating our country's resources, gulling the consumer, exploiting employees and polluting the environment. Government intervention was regarded as necessary to protect consumer and employee rights and to force corporate social responsibility.

Experience is a painful but effective teacher. Seven years of working in the private sector, along with taking evening courses towards a Master's Degree in Business Administration, have taught me that those campus-born ideas were the result of undue emphasis on the negative aspects of an economic system which has far more positives than negatives.

Without profit, a business cannot exist, and it makes a profit by satisfying its customers' needs and wants. The more completely the firm satisfies those needs, the more profit it will make, and profitability insures that a company can be responsive to employees and to society in general—without government intervention.

The free enterprise system provides us all with an infinite variety of goods and services at reasonable prices. It is responsible for the high standard of living we enjoy and affords us the leisure to pursue whatever we individually define as quality of life.

John Prior
Corporate Vice President,
Labor Relations

The role of unions in a free enterprise system

by John Prior

In a free enterprise system, the means of production are privately owned and controlled. Each person is free to make decisions pertaining to his economic life, and each individual's income is roughly in proportion to the value his labor and other resources produce.

Labor unions should not always be viewed by management as an adversary. Constructive accomplishments are possible in a union-management

Thoughts on Free Enterprise

To succeed, a business needs the public confidence in the company's ability to operate honestly, wisely and responsibly. If a business cannot win that public trust, most likely it will fail. That is the story of the free enterprise economic system.

Super Valu believes in perpetuating, improving and strengthening the system. Without it we could not exist, serve our customers and be rewarded justly for our performance. We strive constantly to meet our corporate responsibilities. This is important to us, and our people agree. Following are some essays on free enterprise written by employees and individuals affiliated with us. Each expresses a personal viewpoint. We hope you find them revealing and reassuring.

Super Valu supports the free enterprise system by equipping independent food retailers with the products, services and skills they need to compete effectively in the marketplace.

James H. Ruben
Board of Directors

Financial performance and responsible behavior.

by James H. Ruben

Much has been written about the virtues of our free enterprise system and how economic and business freedom for the individual is closely related to political and social freedom for all of society.

After over two decades in business management and ownership, my conviction is that with this freedom there is an intrinsic responsibility towards society.

Since nothing in our Constitution, Declaration of Independence or Bill of Rights guarantees continuity of the capitalistic system, business managers and owners must continually recognize that their primary responsibilities go beyond servicing the needs of their customers and investors. They must also demonstrate that our economic system can provide more opportunity, hope, a greater distribution of wealth and meaningful participation than any other system, or it will and should fail.

In the end, business can only operate on a franchise of public goodwill, respect and trust. When overt or covert actions of businessmen jeopardize these attitudes, the public can and does respond through the legislative and elective political process, often creating a regulatory environment which inflicts serious hardships on all business people.

A business career is not for everyone but it is rewarding for those who welcome the opportunity to be judged and rewarded not on intentions or even effort, but on competitive results and on performance that is tangible and quantifiable.

Capital is blind and goes where it is treated best. Only those managers who demonstrate that they can use it efficiently succeed. In this way, our capitalistic system creates a totally democratic environment in which judgment of managers is not based

Operating Territories

WHOLESALE FOOD DISTRIBUTION

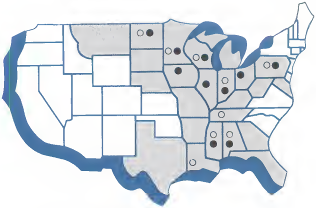
Super Valu Stores, Inc., headquartered in Minneapolis, continues as the largest food wholesaler in the United States serving retailers in 24 states.

The territory served by Super Valu stretches from Canada to the Gulf of Mexico and from Montana to Maryland. Food distribution originates from divisions located primarily in medium to smaller cities in midwestern and southern states. Combined space of all food distribution centers totals nearly 5½ million square feet (including office, garage, warehouse and rented storage space).

Super Valu's independent retailers own and operate 1,804 retail food stores while the company owns all or a majority interest in 107 stores. Also served by Super Valu are 60 national chain stores.

During fiscal 1978, Super Valu's wholesale food operating territory was enlarged through acquisition of the Charley Brothers Co. of Greensburg, Pa. This newest division, acquired in June, serves 171 stores in southwestern Pennsylvania, Ohio, West Virginia and Maryland.

In addition to Super Valu's retail general merchandise operations described below, the company operates Preferred Products, a food processing and packaging facility; Studio 70, an interior design studio; Planmark, an architectural design and engineering firm, and Risk Planners, Inc., an insurance agency.



States served by Super Valu are shown by grey shading

○ Corporate Retail Food Stores

● Wholesale Distribution Centers

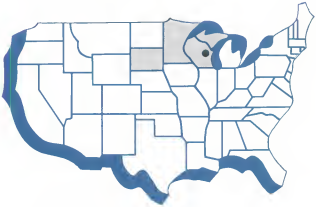
SHOPKO STORES

ShopKo Stores, Inc., with headquarters and distribution center in Green Bay, operates 21 department stores in Michigan, Wisconsin, Minnesota and South Dakota.

ShopKo stores range in size from 26,000 to 106,000 square feet, selling more than 50,000 different items. Seventy per cent of sales are hardgoods categories and 30 per cent are softlines.

Two new ShopKo stores were opened during fiscal 1978, in Wausau and Manitowoc, WI. Both stores are approximately 85,000 square feet and offer all of ShopKo's merchandising strategies including fabric and craft centers, pharmacies and home improvement centers.

All ShopKo stores offer housewares, small appliances, paint, toys, sporting goods, photo supplies, records and tapes, health and beauty aids, men's, women's and children's apparel and other general merchandise.



States served by ShopKo Stores are shown by grey shading

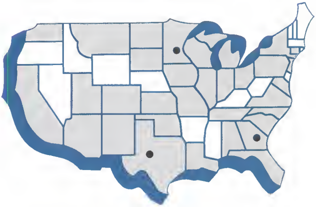
● ShopKo General Offices and Distribution Center

COUNTY SEAT STORES

County Seat Stores, Inc., a division of Super Valu, featuring casual apparel for the entire family, grew to 193 stores by the end of the fiscal year.

These stores are located in 33 states reaching from coast to coast with concentration in the central and southeastern U.S. Stores are typically located in major regional shopping malls, and average 3,500 square feet, with 3,000 square feet of selling space.

County Seat's headquarters and main distribution center are located in suburban Minneapolis, with regional offices and distribution centers in Atlanta and Dallas. The Dallas distribution center is an addition during fiscal 1978. It supplies growing markets in the south central and southwestern states.



States served by County Seat Stores are shown by grey shading

● County Seat Distribution Centers

Operations Review

For the eighth consecutive year, sales and earnings for Super Valu moved sharply upward.

Jack J. Crocker, chairman and chief executive officer, called it one of our finest years. Sales reached a record $2.6 billion, an increase of 22% from $2.1 billion a year ago. Net earnings climbed to a new high of $30.1 million, 38% above the restated $21.8 million last year. This translated to earnings per share of $3.37, 38% higher than last year's restated $2.45. The after-tax net profit margin was 1.16% compared with 1.02% for 1977.

Wholesale Food. At fiscal year end, Super Valu was serving 1,804 affiliated retail food stores. These customers had aggregate annual retail sales of more than $4 billion. A major contributor to the record performance was Charley Brothers Co., of Greensburg, Pa., acquired last June.

Two significant top management appointments were announced in March.

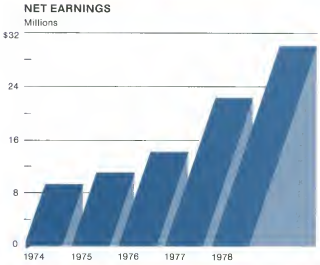
Michael W. Wright, 39, was named corporate executive vice president with broad marketing and administrative duties in wholesale food and non-food businesses. Wright, an attorney, had joined the company a year earlier as a senior vice president. Also given new responsibilities was Gene D. Hoffman, vice president of marketing, who was named to a newly-created position as president of the Super Valu wholesale food companies.

Retail Food. Super Valu had 107 company-owned units, mostly in the South. This total included 67 Mr. Quik convenience stores and 30 Sunflower stores. The company also operated 10 other retail food stores. Company retail stores had sales of $178 million.

Food Service. On March 1, Super Valu announced completion of the sale of its Harrison House food service division to Consolidated Foods Corp. of Chicago for a sale price of approximately $9 million in cash. Sales last year were $83 million, representing about 3% of the company's total sales.

Retail Non-Food. The general merchandise segment of the company accounted for 9% of Super Valu sales and 31% of total earnings. ShopKo had the best year in its history with its sales up 29% and earnings up 43% over fiscal 1977. Two new stores were opened during the year, bringing the total to 21.

County Seat continued its nationwide growth. At year end, there were 193 stores in 33 states, an increase of 33 units in one year. County Seat sales were up 53% and earnings rose 33% over a year ago. A successful new merchandising plan launched in June contributed to the record sales volume.



In order to optimize the earnings for our shareholders, Super Valu has adopted the policy of taking on debt in the form of either notes payable or lease obligations; the use of these debt instruments in prudent amounts produces a lower overall cost of capital but still retains a capital structure that is well balanced and not overly debt heavy.

We believe that we have achieved this objective, since Super Valu's future financing options are flexible, so that we could take on additional amounts of short or long-term debt obligations without putting a strain on our capital structure.

Super Valu has made tentative arrangements to borrow $25 million of new money from two insurance companies which will mature in 1992. The takedown of these new funds will occur in equal amounts in September 1978 and in September 1979. The proceeds of this financing will be used to buy properties (mostly warehouse facilities) that are presently being leased from third parties.

The effect of this financing is to leave our capital structure almost exactly as it was before the financing, since we are simply replacing a lease obligation with a long-term debt obligation. The effect on the future income statements should be very minimal, and our cash flow should be enhanced; this transaction should also act to lower our average cost of capital.

Sales and Operating Earnings by Lines of Business

The Company defines its operation as being two broad lines of business: (1) food store operations, and (2) retail general merchandise operations. However, the table following has been designed to provide additional information about our divisional operations within those broad categories:

(000's omitted)

	Sales	Operating Earnings
Wholesale Foods	$2,240,082	
Institutional Foods	83,273	$50,533
Retail Foods	178,406	
County Seat	111,615	10,805
ShopKo	135,206	11,565
	2,748,582	72,903
Less Elimination of Intercompany Sales	155,081	
Consolidated	$2,593,501	$72,903

Expansion Plans For Fiscal 1979

Super Valu's revised capital budget for Fiscal 1979 is $81 million.

This capital spending plan includes $65 million for the cash purchase of fixed assets and equipment; $6 million for working capital additions (primarily inventories); and $10 million representing the present value of new operating lease agreements.

The largest portion of the budget ($29 million) will be devoted to our wholesale food activities where significant additions and remodeling projects are planned for existing warehouse facilities in Anniston, Alabama; Bismarck, North Dakota; Green Bay, Wisconsin; and Minneapolis, Minnesota. An all new replacement facility of 325,000 sq. ft. is planned for our wholesale food division in Fargo, North Dakota.

The Company has also budgeted $17 million for County Seat activities, including the opening of 35 new County Seat leisure wear apparel stores and to equip all of its stores with new electronic cash registers. A total of 193 County Seat stores were in operation at year end.

Super Valu has also planned to spend $20 million to build four new ShopKo general merchandise stores and to remodel and expand eight of the 21 stores now in operation.

We expect to be able to finance this capital budget with internally-generated funds, the proceeds from the sale of the Harrison House division, minor amounts of industrial revenue bonds, and with existing cash balances. Current forecasts indicate that the Company will not require any equity financing during the coming year.

Pension and Profit Sharing Plans

Super Valu's pension and profit sharing trusts are solidly financed.

The assets of Company-sponsored plans exceed 100% of the present value of all of the vested and unvested accrued benefits. The unfunded past service liability of our pension plans is approximately $1 million at March 1, 1977.

Our retirement plans have been conservatively funded from their inception, which has the beneficial effect of insuring that our employees will have a source of income after their effective service with the Company has been completed. Additionally, our shareholders do not have any large, overhanging past service obligations which would have to be funded out of future earnings.

James L. Slovick

JAMES L. SLOVICK
Senior Vice President, Finance

Financial Review

In the free enterprise system in the United States, individual shareholders and institutional investors have the free choice of determining the companies in which they wish to invest. These shareholders desire to match their investment objectives with the companies whose investment characteristics fulfill those objectives. Approximately 4,700 shareholders have chosen Super Valu's common stock as an investment of their choice because of our operating and financial characteristics.

With that thought in mind, the following is a brief summary of the operating and financial characteristics of Super Valu:

Sales and Earnings

The fiscal year ended February 25, 1978, represents the eighth consecutive year of increases in sales, net earnings and net earnings per share.

The table below illustrates the annual growth rates for the past one, five and ten years:

Growth Rate Percentages

For the years ended February 1978	Sales	Net Earnings	Net Earnings Per Common Share
Fiscal Year 1978	22%	38%	38%
5 Years Compounded Annually	16%	29%	25%
10 Years Compounded Annually	14%	19%	18%

Over time, our earnings increase has outpaced the increase in sales, because of our dedication to expense control, and the increased emphasis on non-food operations where net profit margins are higher than for our food operations.

Dividend Declarations

Dividends declared during the fiscal year amounted to 81¢ per common share..... an increase of 28% over the 63¼¢ per share declared in the prior fiscal year.

In the past four years, the annual dividend rate has been increased five times, from 40¢ in fiscal 1974 to the current annual rate of 86¢..... an increase of 115 per cent.

Cash dividends have been declared on Super Valu's common stock for 41 consecutive years.

In recent years, dividend payments have been equal to approximately 25% of earnings; we anticipate that our target payout ratio will increase over time, to approximately 30% of the most recent four quarters in realized net earnings per share.

This policy permits the Company to reinvest at least 70% of its current earnings back into the business for new projects with above average rates of return. Our return on average stockholders' equity and on total capital employed for fiscal 1978 was 27% and 12%, respectively.

Our dividend policy is synchronized with the objectives of our shareholders who are interested in a combination of current cash dividends and future capital gains as contrasted to a higher cash payout more typical of a mature company.

Depreciation and Amortization

Depreciation and amortization for property owned by the Company for the fiscal year was $14,444,000, which compares with $9,959,000 for fiscal 1977. In addition, amortization of our capital leases amounted to $4,879,000 compared with $4,883,000 for fiscal 1977. We anticipate that our depreciation charges and amortization of capital leases will amount to $18,000,000 and $5,300,000, respectively, for fiscal 1979.

Super Valu has adopted the provisions of Financial Accounting Standards Board Statement No. 13, Accounting for Leases.

Capital Structure

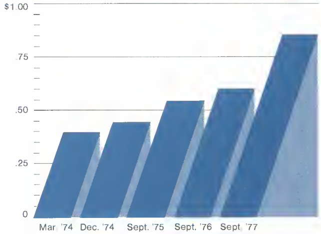
Super Valu's capital structure has improved over the prior year, since the combined total of long-term notes payable and the capitalized value of leases has declined as a percentage of total capital. The following table describes the nature of our capital structure:

	At Feb. 25, 1978		At Feb. 26, 1977	
(000,000's)	Amount	% of Total	Amount	% of Total
Long-term Notes Payable	$28.2	11	$28.2	12
Present value of:				
Capital Leases	64.2	24	71.6	30
Operating Leases	44.4	17	37.9	16
Total of Notes Payable and Lease Obligations	136.8	52	137.7	58
Stockholders' Equity	124.4	48	101.3	42
Total Capitalization	$261.2	100	$239.0	100

The following chart shows the increases in dividends for the four years since March, 1974.

SUMMARY OF ANNUAL DIVIDEND RATES PER COMMON SHARE

All data reflects 2 for 1 split issued Aug. 1976



This is an outstanding record of continued increases and we know that you are pleased with it. Because we have been able to reinvest a good portion of the retained earnings each year, we have been able to increase dividends in succeeding years.

We might liken it to money in a savings account in the bank. If you leave the accrued interest in your account each year, then each subsequent year that interest becomes principal, and it, too, earns interest. The compounding effect produces much greater earnings than would result if all of your interest was withdrawn each year. If Super Valu were to pay most of its earnings in dividends, then the opportunity to increase earnings and dividends each year would be greatly diminished.

Your company tries to carry on effective communications with its many important constituencies, including the Teamsters' Union, with whom we have most of our labor contracts. The association between a company's management and union leaders can never be totally compatible. Proof of this is in the fact that we experienced two strikes during the past year. However, we have gained a better understanding of each other over a period of time, and a "faith in the integrity" of each other. People do not necessarily have to agree on issues in order to have mutual respect. I do believe that such a relationship exists between the Teamsters and your management.

In a year of mostly good news, it is with deep personal sadness that I mention the death of Milton Perlmutter, who served as a director of Super Valu for six years. Last December I was privileged to give the testimonial for Mr. Perlmutter before approximately 2,000 people at the Waldorf Astoria Hotel in New York when he received the Prime Minister's Medallion, the highest civilian award given by the State of Israel. I could write much about this man but would rather summarize my feelings that he was a man who lived those principles that other men admire. He was a great businessman, a great community leader, a deeply religious man, and above all, an outstanding husband and father. The industry will feel his loss. I shall miss him personally, for he was my friend.

Now we go forward to another year with its new challenges and its new opportunities. With your support as understanding shareholders, with the continued support of more than 12,000 loyal employees and a management group that is second to none, we shall continue to move forward to new and meaningful goals.

JACK J. CROCKER
Chairman, President and
Chief Executive Officer

To Our Shareholders

In the spring of 1973 the board elected me chief executive officer of Super Valu. This is the fifth Annual Report to shareholders since that time. For that reason, I would like to review with you the progress of this five-year period and then outline our thoughts for the future.

You probably have read reports that our sales for this past year (ending February 25, 1978) totaled \$2,593,501,000—an increase of 22% over the previous year, and that net profits of \$30,106,000 represented a 38% increase over the previous year. For the past five years, our record has been as follows:

FIVE YEAR SALES AND EARNINGS PER SHARE DATA

Fiscal Year Ended	Sales (In Billions)	Increase From Prior Year	Earnings Per Share	Increase From Prior Year
1974	\$1.4	19%	\$1.19	9%
1975	1.6	13%	1.44	21%
1976	1.8	11%	1.75	22%
1977	2.1	17%	2.45	40%
1978	2.6	22%	3.37	38%
5 Year Compounded		16%		26%

We are especially pleased with this progress, since we not only have aggressively pursued additional activities for your company, but we also have closed some that were marginal. We no longer operate fabric stores. We are out of the equipment leasing business. We have sold the institutional food service division. We have consolidated the small Parade stores into our ShopKo division. We no longer operate many retail food stores except in Mississippi and Fargo, North Dakota.

During this same period, we have changed our accounting procedures for almost all wholesale food inventories from FIFO (First-in, First-out) to LIFO (Last-in, First-out). If this change to LIFO had not been made, current inventories would be approximately \$17 million more than that amount shown on the balance sheet. This has resulted in a conservative statement of our profits during this time period.

During this same five-year period, we have entered the retail leisure wear business with the County Seat stores; we have acquired an outstanding wholesale food company (Charley Brothers in the state of Pennsylvania); and we have broadened the lines of services and merchandise throughout the wholesale food operations. Net profit on sales has risen to 1.2% after taxes, and stockholders return on equity has risen steadily to its current year's level of 26.7%. Because of this growth, approximately 3,600 new jobs have been created during this time.

It is not entirely possible for management to pinpoint all of the reasons for this success story. I believe it begins with management's clear understanding of the organization's responsibilities to the customers and the communities it serves. Your management is strongly committed to fulfill these responsibilities. The management of Super Valu believes strongly that it must serve its customers better than anyone else can serve them. Your company's philosophy is very basic:

"Throughout Super Valu, we shall serve our customers more effectively than anyone else can serve them."

We believe that only through this continuing commitment can we assure ourselves of the continuing profitable growth that we have experienced in the past. Our thinking goes like this:

1. Customers are the best buyers in the world and will always buy from that source which does the best job for them.

2. Since this is true, the only way for any business to dominate a market is to serve the customer better than anyone else.

3. By having a commanding share of market a business can operate with the lowest capital and operating expenses, remain highly competitive and still realize a satisfactory return on its capital investment.

We shall continue to increase our share of each market, to minimize our capital invested in achieving that growth and to scrutinize all expenses. Through the diligent pursuit of such objectives, we shall remain competitive with our prices and operate at optimum profits. When a business can operate at a net profit of only one penny on each dollar of sales, and at the same time turn its capital to earn 26.7% on equity, that business is benefiting the customer with greater value, the employee with security and opportunity and the shareholder with a good return on his investment. Super Valu is such a company.

Management's major role at Super Valu is to coordinate our efforts so we can maintain satisfactory growth.

Financial Highlights

Super Valu Stores, Inc. and Consolidated Subsidiaries

(In thousands, except per share and percentage figures)	Fiscal year (52 weeks) ended February 25, 1978	February 26, 1977	Percent Increase
Net sales	**$2,593,501**	$2,133,549	21.6
Net earnings	**30,106**	21,836	37.9
Net earnings per common share	**3.37**	2.45	37.6
Common shares outstanding (end of year)	**8,942**	8,922	.2
Dividends declared per common share	**.81**	.6325	28.1
Stockholders' equity per share of common stock (end of year)	**13.92**	11.35	22.6
Stockholders' equity	**124,440**	101,290	22.9
Percent return on —stockholders' equity (yearly average)	**26.66**	23.50	13.4
—net capital employed including the capitalized value of all financing and operating leases	**11.90**	9 66	23.2

Who We Are

Super Valu Stores, Inc., with headquarters in suburban Minneapolis, is the largest wholesale food company in the United States. At the close of its fiscal year on February 25, 1978, Super Valu served 1,971 retail food stores, including 107 company-owned stores.

Deliveries to these stores are made principally from the Company's 11 distribution centers. Super Valu's retail customers are located in 24 states.

While wholesale food distribution is the Company's primary business, non-food retail operations continue to grow.

Super Valu entered the general merchandising business in 1971 with the acquisition of ShopKo Stores, Inc., a department store chain based in Green Bay, Wisconsin. Today, ShopKo operates 21 stores.

The Company's other non-food business, the County Seat Stores, Inc., opened 33 casual apparel stores the past year, bringing the total to 193 stores in 33 states. County Seat has distribution centers in suburban Minneapolis, Atlanta and Dallas.

Super Valu continues to operate Preferred Products, Inc., a food processing and packaging facility; Risk Planners, Inc., insurance agency; Planmark, architectural design and store engineering service, and Studio 70, interior design studio.

Contents

Statement of Earnings

Super Valu Stores, Inc. and Consolidated Subsidiaries

	Fiscal year (52 weeks) ended February 25, 1978	Fiscal year (52 weeks) ended February 26, 1977 (Restated)
Net sales	$2,593,501,000	$2,133,549,000
Costs and expenses:		
Cost of sales	2,389,927,000	1,969,509,000
Selling and administrative expenses	139,039,000	116,240,000
Interest and other debt expenses	7,450,000	7,476,000
	2,536,416,000	2,093,225,000
Earnings before income taxes	57,085,000	40,324,000
Provision for income taxes (Note A):		
Currently payable (includes investment tax credit of $1,450,000 for 1978 and $1,125,000 for 1977)	28,081,000	18,481,000
Deferred	(158,000)	1,008,000
	27,923,000	19,489,000
Net earnings of Super Valu Stores, Inc. and consolidated subsidiaries	29,162,000	20,835,000
Net earnings of unconsolidated finance subsidiary (Note A)	944,000	1,001,000
Net earnings	$ 30,106,000	$ 21,836,000
Weighted average number of common shares outstanding (Note A)	8,933,000	8,896,000
Net earnings per common share (Note A)	$3.37	$2.45

See notes to financial statements.

Balance Sheets

Super Valu Stores, Inc. and Consolidated Subsidiaries

Assets	February 25, 1978	February 26, 1977 (Restated)
Current Assets:		
Cash (including temporary investments of $28,576,000 in 1978 and $47,106,000 in 1977)	$ 29,068,000	$ 47,548,000
Receivables, less allowance for losses of $1,400,000 in 1978 and $1,250,000 in 1977	31,518,000	23,422,000
Due from purchaser of food service division (Note B)	12,251,000	
Inventories (Note A)	158,931,000	125,378,000
Supplies and prepaid expenses	4,353,000	2,608,000
Deferred income tax benefits (Note A)	3,413,000	3,176,000
TOTAL CURRENT ASSETS	239,534,000	202,132,000
Other assets and deferred charges (Notes A and G)	6,905,000	4,109,000
Investment in and advances to unconsolidated finance subsidiary (Note A)	6,574,000	7,595,000
Deferred income tax benefits (Note A)	2,857,000	2,492,000
Property, plant and equipment, at cost (Notes A and F):		
Land	4,746,000	1,840,000
Buildings	23,425,000	13,131,000
Properties under construction	3,546,000	
Leasehold improvements	23,072,000	17,383,000
Equipment	74,395,000	58,065,000
Leased assets under capital leases	80,502,000	86,368,000
	209,686,000	176,787,000
Less accumulated depreciation and amortization:		
Owned property, plant and equipment	45,479,000	35,505,000
Leased assets under capital leases	27,266,000	26,210,000
	136,941,000	115,072,000
	$392,811,000	$331,400,000

See notes to financial statements.

Liabilites and Stockholders' Equity

	February 25, 1978	February 26, 1977 (Restated)
Current Liabilities:		
Accounts payable	$117,692,000	$ 94,804,000
Checks outstanding, net (Note A)	30,859,000	18,291,000
Contributions under retirement plans (Note A)	3,564,000	2,425,000
Accrued compensation	5,184,000	3,791,000
Property, payroll and sales taxes	4,887,000	4,084,000
Federal and state income taxes	10,658,000	4,520,000
Payments due within one year on long-term notes payable (Note C)	272,000	77,000
Payments due within one year under capital leases (Note F)	4,004,000	4,084,000
Dividends payable	1,922,000	1,472,000
TOTAL CURRENT LIABILITIES	179,042,000	133,548,000
Long-term notes payable (Note C)	28,203,000	28,182,000
Obligations under capital leases (Note F)	60,241,000	67,451,000
Other liabilities	885,000	929,000
Stockholders' equity (Notes A, C, D, and E):		
Common stock	8,942,000	8,922,000
Capital in excess of par value	15,728,000	15,468,000
Retained earnings	99,770,000	76,900,000
TOTAL STOCKHOLDERS' EQUITY	124,440,000	101,290,000
	$392,811,000	$331,400,000

Changes in Financial Position

Super Valu Stores, Inc. and Consolidated Subsidiaries

	Fiscal year (52 weeks) ended February 25, 1978	February 26, 1977 (Restated)
Sources of funds:		
Net earnings	$ 30,106,000	$21,836,000
Charges not involving use of funds:		
Depreciation and amortization-property and intangibles	14,444,000	9,959,000
Amortization of capital leases	4,879,000	4,883,000
Deferred income taxes	(365,000)	(85,000)
	49,064,000	36,593,000
Less equity in net earnings of unconsolidated finance subsidiary	944,000	1,001,000
Working capital provided from operations	48,120,000	35,592,000
Sale of common stock under option plans	280,000	542,000
Disposals of property, plant and equipment	2,018,000	1,912,000
Disposals of leased assets	7,106,000	4,419,000
Reduction of advances to unconsolidated finance subsidiary	1,965,000	2,535,000
Additional long-term borrowings	197,000	
Additional long-term obligations under capital leases	5,063,000	2,139,000
Other	2,109,000	46,000
	66,858,000	47,185,000
Applications of funds:		
Property, plant and equipment additions	40,148,000	25,865,000
Leased asset additions	5,063,000	2,139,000
Reduction of long-term notes payable	176,000	61,000
Reduction in obligations under capital leases	12,273,000	7,254,000
Cash dividends declared	7,236,000	5,630,000
Purchase of assets of the Charley Brothers Co.:		
Property, plant and equipment	4,600,000	
Intangible assets	5,454,000	
	74,950,000	40,949,000
Increase (decrease) in working capital	$ (8,092,000)	$ 6,236,000
Summary of changes in working capital:		
Increase (decrease) in current assets:		
Cash and temporary investments	$(18,480,000)	$ 3,791,000
Receivables	1,731,000	1,756,000
Due from purchaser of food service division	12,251,000	
Inventories	23,873,000	11,819,000
Deferred income tax benefit	237,000	(687,000)
Other	1,397,000	(390,000)
Decrease (increase) in current liabilities:		
Accounts payable	(17,052,000)	(3,594,000)
Checks outstanding, net	(12,568,000)	(7,373,000)
Payments due within one year under capital leases	80,000	500,000
Miscellaneous accounts payable and accrued expenses	(9,080,000)	414,000
Net working capital acquired from the Charley Brothers Co.	9,519,000	
Increase (decrease) in working capital	(8,092,000)	6,236,000
Working capital, beginning of year	68,584,000	62,348,000
Working capital, end of year	$ 60,492,000	$68,584,000

See notes to financial statements.

Stockholders' Equity

Super Valu Stores, Inc. and Consolidated Subsidiaries

	Common stock Shares	Common stock Amount	Capital in excess of par value	Retained earnings
Balances at February 28, 1976				
As previously reported	8,885,916	$7,405,000	$16,477,000	$64,612,000
Adjustment for change in method of accounting for leases (Note A)				(3,918,000)
As restated	8,885,916	7,405,000	16,477,000	60,694,000
Sale of common stock under option plans, including $149,000 of income tax benefit resulting from options sold under non-qualified plans	40,370	35,000	507,000	
Purchase of treasury shares	(4,000)	(4,000)	(30,000)	
Stock split effected in the form of 100% stock dividend and change in par value		1,486,000	(1,486,000)	
Net earnings				21,836,000
Cash dividends declared on common stock—$.6325 per share				(5,630,000)
Balances at February 26, 1977	8,922,286	8,922,000	15,468,000	76,900,000
Sale of common stock under option plans, including $50,000 of income tax benefit resulting from options sold under non-qualified plans	19,505	20,000	260,000	
Net earnings				30,106,000
Cash dividends declared on common stock—$.81 per share				(7,236,000)
Balances at February 25, 1978	8,941,791	$8,942,000	$15,728,000	$99,770,000

See notes to financial statements.

Notes to Financial Statements

Super Valu Stores, Inc. and Consolidated Subsidiaries

A. Summary of significant accounting policies:

Consolidation:

The financial statements include the accounts of the Company and its subsidiaries with the exception of its wholly-owned finance subsidiary, Super Valu Development, Inc., which is carried at equity in net assets. Separate financial statements for Super Valu Development, Inc. follow these notes. All significant intercompany accounts and transactions are eliminated.

Inventories:

Inventories are stated at the lower of cost or market. Cost is determined through use of the last-in, first-out method (LIFO) for a major portion of wholesale food inventories (55.7% for 1978 and 45.2% for 1977 of the total cost of consolidated inventories), the retail inventory method in certain groups of retail stores and the first-in, first-out method (FIFO) for all other inventories. Market is considered as replacement value. If the FIFO method had been used to determine cost of inventories for which the LIFO method is used, the Company's inventories would have been $16,917,000 higher at February 25, 1978 and $12,024,000 higher at February 26, 1977. During fiscal 1978, the Company adopted the LIFO method of determining cost for additional wholesale food inventory categories, resulting in a $488,000 ($.05 per share) reduction in net earnings. Management believes that the LIFO method for such inventories more accurately reflects earnings in a period of rising prices by providing a better matching of cost and revenue.

Intangible assets:

Intangible assets consisting of goodwill, trademarks and customer lists with an original cost of $5,454,000 (carrying amount of $4,949,000) are being amortized over periods ranging from three to fifteen years using the straight-line method.

Property, plant and equipment:

Cost of buildings and equipment are depreciated over the estimated useful lives of the assets. Buildings and certain equipment (principally retail store equipment) are depreciated using the straight-line method. Remaining properties are depreciated on an accelerated basis. Useful lives generally assigned are: buildings—25 to 50 years; retail store equipment—eight years; warehouse, transportation and other equipment—three to 10 years. Costs of leasehold improvements are amortized individually over the period of the lease or the estimated useful life of the asset, whichever is shorter, using the straight-line method for retail properties and an accelerated method for warehouses. Expenditures for repairs and maintenance are charged against earnings. Additions and replacements are capitalized and depreciated. At the time of sale or retirement of property, plant and equipment, the difference between net book value and proceeds is charged or credited to earnings. Leased assets under capital leases are amortized over the related lease term using the straight-line method.

Checks outstanding, net:

Checks outstanding, net comprises the amount of checks which have been issued against future deposits and have not cleared the Company's bank accounts.

Leases:

The Company has retroactively adopted the requirements of Financial Accounting Standards Board Statement No. 13, Accounting for Leases. This resulted in a reduction of retained earnings at February 28, 1976 totaling $3,918,000, and reduced net earnings for the years ended February 25, 1978 and Feburary 26, 1977 by $418,000 ($.05 per share) and $500,000 ($.06 per share), respectively.

Income taxes:

Provision is made for deferred income taxes and future income tax benefits applicable to timing differences between financial and tax reporting. These timing differences consist primarily of differences between book and tax depreciation, amortization and interest for financial statement purposes relating to capital leases and certain provisions for expenses which are not deducted for tax until paid. The federal investment tax credit is treated as a reduction of federal income taxes in the year in which the related property was put into service.

Retirement plans:

Substantially all non-union employees of the Company and its subsidiaries are covered by various non-contributory pension or profit-sharing plans.

A number of other employees are covered by pension plans under the provisions of collective bargaining agreements.

The total expense of all plans for the years ended February 25, 1978 and February 26, 1977 amounted to $5,047,000 and $3,658,000, respectively.

It is the Company's policy to fund pension costs accrued and to amortize past service costs over 30 years. The amount of that liability at the most recent valuation date, March 1, 1977, was $1,015,000. The total pension fund assets and balance sheet accruals exceeded the actuarially computed value of vested benefits at March 1, 1977.

Pre-opening costs:

Pre-opening costs of retail stores are charged against earnings as incurred.

Replacement cost (unaudited):

As required by the Securities and Exchange Commission, the Company has developed replacement cost information with respect to inventories and productive capacity. Reference is made to the Company's Annual Report, Form 10-K, a copy of which is available on request, for quantitative information with respect to the estimated replacement cost of inventories and productive capacity at February 25, 1978 and February 26, 1977 and the related estimated effect of such costs on cost of sales and depreciation expense for the years then ended. This information indicates that each of these amounts, on a replacement cost basis, is higher than corresponding amounts included in the financial statements. The methods used to calculate this information are not precise and the determination of replacement cost data only applies to selected accounts. Accordingly, the Company cautions against the use of replacement cost data alone to estimate future effects on costs and capital needs. In addition, such data may not be comparable with other companies because of different methods of determination and possible errors of estimation.

The Company places great emphasis on capital management and productivity as a means of counteracting the effect of inflation. The Company intends to continue placing emphasis in these areas.

Net earnings per share:

Net earnings per share are computed by dividing net earnings by the weighted average number of common shares outstanding. Outstanding stock options have no material effect on earnings per share.

B. Disposal of food service division:

Effective February 25, 1978, the Company disposed of the operations of its Harrison House food service division by selling three of its locations for cash totaling $9,358,000 net of liabilities retained, and discontinuing operations of the fourth one. Harrison House fiscal 1978 sales totaled $83,000,000, representing about 3 percent of Super Valu's total sales. The disposition, including operations for the year, resulted in an insignificant loss.

C. Long-term notes payable:

	February 25, 1978	February 26, 1977
7.90% promissory notes	$25,000,000	$25,000,000
8.50% mortgage note, payable in monthly installments of $26,975 including interest to April 1, 1997 (land and buildings pledged)	3,051,000	3,118,000
Other	424,000	141,000
	28,475,000	28,259,000
Due within one year	272,000	77,000
	$28,203,000	$28,182,000

The 7.90% promissory notes are due on March 15, 1992, and require annual payments of $2,100,000 from March 15, 1981.

The Company's long-term debt agreement relative to the 7.90% promissory notes includes restrictions on payment of cash dividends and acquisition of the Company's capital stock, except out of consolidated retained earnings available ($20,492,000 at February 25, 1978) for restricted payments, and a requirement that consolidated working capital be maintained at not less than $40,000,000.

Aggregate maturities of long-term notes payable during the next five fiscal years are:

1979—$ 272,000
1980—$ 183,000
1981—$ 92,000
1982—$2,199,000
1983—$2,206,000

D. Capital stock:

	Preferred	Common
Par value per share	None	$1.00
Number of shares—		
Authorized	1,000,000	15,000,000
Outstanding		
February 25, 1978	None	8,941,791
February 26, 1977	None	8,922,286

Notes *(Continued)*

E. Stock option plans:

The 1976 Executive Employees Stock Option Plan has reserved 200,000 shares of common stock which may be optioned and sold to key salaried executive employees at prices not less than 100 percent of fair market value on the date of grant. The 1976 Plan provides that the Board may determine, at the time of granting, whether each such option granted under the Plan will be a qualified or nonqualified stock option under the Internal Revenue Code. The term of each option will be determined by the Board of Directors, but cannot be more than five years for a qualified option and ten years for a nonqualified option, from the date of grant. Options may be exercisable in installments or otherwise, as the Board may determine.

Under the 1973 Executive Employees Stock Option Plan, a non-qualified stock option plan, a maximum of 200,000 shares of common stock may be optioned and sold to key salaried executive employees at prices not less than 100 percent of fair market value on the date of the grant. The term of each option shall be determined by the Board of Directors, but shall not be for more than ten years from the date of grant. Options may be exercised at such time or times as the Board of Directors may determine.

The 1970 Executive Employees Stock Option Plan reserved 150,000 shares of common stock for qualified option grants over a five-year period at not less than 100 percent of fair market value at the date of grant to key salaried executive employees. In general, options granted are exercisable 20 percent per year (cumulative) and expire five years after date of grant. Changes in the options were as follows:

	Shares		
	Reserved	**Outstanding**	**Available**
Balances at February 28, 1976	333,850	211,190	122,660
Adoption of 1976 Plan	200,000		200,000
Granted $7.10 to $19.07 per share		94,500	(94,500)
Exercised $7.10 to $18.82 per share	(40,370)	(40,370)	
Cancelled	(3,400)	(29,500)	26,100
Balances at February 26, 1977	490,080	235,820	254,260
Granted $7.10 to $23.82 per share		62,750	(62,750)
Exercised $6.91 to $23.81 per share	(19,505)	(19,505)	
Cancelled	(760)	(28,410)	27,650
Balances at February 25, 1978	469,815	250,655	219,160

	February 25, 1978	February 26, 1977
Option prices	$7.10 to $23.82	$6.91 to $19.07
Average option price	$13.46	$12.66
Shares exercisable	162,215	133,770

Options to purchase 51,600 shares of common stock at $7.10 per share have been granted which are exercisable in 1978 and 1979 only to the extent that earlier options of a like number at higher option prices held by certain employees expire.

In February 1978, the Board of Directors adopted (subject to stockholder approval) the 1978 Stock Appreciation Rights Plan. Under the Plan, holders of stock options may be granted stock appreciation rights for up to 50% of their options, which allow the holders to elect to receive a payment (either in cash or common stock or combination thereof) equal to the excess of the fair market value over the option price in lieu of exercising a stock option. Grants of rights under the Plan are at the discretion of a committee appointed by the Board of Directors. At February 25, 1978, no rights have been granted under the Plan.

F. Leases:

All noncancelable leases and subleases with an initial term greater than one year are included in this note and have been categorized as capital or operating leases in conformity with the definitions in Financial Accounting Standards Board Statement No. 13, Accounting for Leases.

Substantially all of the warehouse, retail and office facilities used or occupied by the Company are leased. Many of these leases include renewal options, and occasionally, but to a much lesser extent, some include options to purchase.

Capital leases are concentrated in wholesale food warehouse and office facilities, ShopKo general merchandise stores, corporate owned retail food stores and leased transportation equipment.

The following analysis represents property under capital leases:

	February 25, 1978	February 26, 1977
Buildings	$76,213,000	$80,895,000
Equipment	4,289,000	5,473,000
	80,502,000	86,368,000
Less accumulated amortization	27,266,000	26,210,000
	$53,236,000	$60,158,000

Amortization of property under capital leases was $4,879,000 and $4,883,000 in 1978 and 1977, respectively.

In addition to its capital leases, the Company is obligated under operating leases, primarily for County Seat leisure wear apparel stores, computers and certain Daytex stores whose operations were disposed of during fiscal 1977. Substantially all Daytex stores are sublet to the current operators.

Total rental expense related to all operating leases (including those with terms less than one year) were as follows:

	Fiscal year (52 weeks) ended February 25, 1978	February 26, 1977
Minimum rentals	$ 8,237,000	$6,499,000
Contingent rentals (based primarily on sales performance)	1,876,000	1,821,000
Sublease income	(91,000)	(55,000)
Total	$10,022,000	$8,265,000

Minimum future obligations on leases in effect at February 25, 1978 are as follows:

Capital leases (in thousands)

	Total	Building	Transportation Equipment
1979	$ 8,548	$ 7,734	$ 814
1980	8,384	7,640	744
1981	8,247	7,572	675
1982	7,832	7,412	420
1983	7,180	6,858	322
Later	64,167	64,116	51
Total minimum obligation	104,358	101,332	3,026
Less amount representing interest	(40,113)	(39,623)	(490)
Present value of minimum obligation	64,245	61,709	2,536
Less current portion	(4,004)	(3,387)	(617)
Long-term obligation at February 25, 1978	$60,241	$58,322	$1,919
Long-term obligation at February 26, 1977	$67,451	$63,037	$4,414

Operating leases (In thousands)

	Total	Buildings	Computers and Equipment	Sublet to Non-Affiliates
1979	$ 8,749	$ 7,324	$1,926	$ 501
1980	8,273	6,934	1,775	436
1981	8,204	6,826	1,752	374
1982	6,380	6,647	35	302
1983	6,081	6,265	23	207
Later	24,786	25,203		417
Total minimum obligation	$62,473	$59,199	$5,511	$2,237

The present values of minimum future obligations shown above are calculated based on interest rates (ranging from 3.27% to 9.21% with a weighted average of approximately 7.44%) determined to be applicable at the inception of the leases.

Interest expense on the outstanding obligations under capital leases was $5,119,000 and $5,111,000 in 1978 and 1977, respectively.

Contingent rental expense, based primarily on sales performance, for the capital leases was $741,000 and $583,000 in 1978 and 1977, respectively.

G. Acquisition:

Effective June 18, 1977 (the beginning of the second quarter), the Company purchased for cash of $19,633,000 and the assumption of certain liabilities, the business of Charley Brothers Company, a wholesale grocery firm headquartered near Pittsburgh, Pennsylvania. Intangible assets, including goodwill, were purchased for $5,454,000 and are being amortized over periods ranging from three to fifteen years using the straight-line method. The results of Charley Brothers Company operations since the effective date of the purchase are included in the operating results of fiscal 1978. The pro-forma effect of the inclusion of the operations of Charley Brothers Company for fiscal 1977 and 1978 is presented below. This pro-forma presentation considers amortization of the intangible assets purchased and, for periods prior to the purchase, an assumed interest cost relating to cash used to effect the purchase.

	Fiscal year (52 weeks) ended February 25, 1978	February 26, 1977
Net sales	$2,671,380	$2,361,527
Net earnings	31,551	26,004
Net earnings per share	3.53	2.92

Notes *(Continued)*

H. Commitments and contingent liabilities:

The Company has guaranteed the mortgage loan obligations (aggregate unpaid balance at February 25, 1978 of $1,894,000) of a third party in connection with a shopping center where the Company is a major lessee under a long-term lease agreement. The Company has also guaranteed the fixture financing loans totaling $2,018,000 of various franchised retailers. In addition, the Company is contingently liable under certain leases (present value totaling $4,872,000) assigned to the purchasers of its Harrison House food service division.

The two anti-trust actions alleging a conspiracy to pay producers and feeders of cattle uniform, arbitrary, non-competitive, low prices for meat products discussed in the fiscal 1977 report, have been dismissed. The dismissals are being appealed by the plaintiff.

I. Industry segment information:

Information concerning the Company's operations by business segment for the year ended February 25, 1978 as required by Financial Accounting Standards Board Statement No. 14, Financial Reporting for Segments of a Business Enterprise, is contained on page 18.

J. Unaudited quarterly financial information:

Unaudited quarterly financial information for the periods indicated is as follows:

Fiscal 1978

	First (16 wks)	Second (12 wks)	Third (12 wks)	Fourth (12 wks)	Year (52 wks)
Net sales	$686,329	$594,679	$640,570	$671,923	$2,593,501
Cost of sales	632,598	546,533	589,739	621,057	2,389,927
Net earnings	7,294	6,672	8,227	7,913	30,106
Net earnings per common share	.82	74	.92	.89	3 37
Dividends declared per common share	.1650	2150	.2150	.2150	8100
Price range per common share	27-21⅝	27⅛-23	29⅝-23½	32¼-27⅛	32¼-21⅝

Fiscal 1977

	First (16 wks)	Second (12 wks)	Third (12 wks)	Fourth (12 wks)	Year (52 wks)
Net sales	$619,364	$483,529	$511,484	$519,172	$2,133,549
Cost of sales	572,204	447,110	471,705	478,490	1,969,509
Net earnings	5,392	4,686	5,294	6,464	21,836
Net earnings per common share	.61	.52	60	.72	2.45
Dividends declared per common share	1375	1650	1650	1650	.6325
Price range per common share	19-12⅜	20¼-17⅞	22⅛-16⅞	24½-21	24½-12⅜

All figures except per share data in thousands

The above information has been restated to reflect the retroactive adoption, in the third quarter of fiscal 1978, of the requirements of Financial Accounting Standards Board Statement No. 13, Accounting for Leases, described in Notes A and F. The first three quarters of fiscal 1978 have also been restated to reflect a change to the last-in, first-out (LIFO) method of determining cost for additional wholesale food inventory categories described in Note A. As a result of these changes, net earnings for the first three quarters of fiscal 1978 were reduced as follows: first—$345,000 ($.04 per share); second—$283,000 ($.03 per share); third—$113,000 ($.01 per share) and quarterly net earnings for fiscal 1977 were reduced as follows: first—$154,000 ($.02 per share); second—$115,000 ($.01 per share); third—$115,000 ($.01 per share); fourth—$116,000 ($.02 per share).

Super Valu Development, Inc.

BALANCE SHEETS

	February 25, 1978	February 26, 1977
ASSETS		
Investment in direct finance leases (Notes A and C)	$73,671,000	$62,507,000
Receivables:		
Notes receivable (Note B)	13,176,000	6,372,000
Accounts receivable	1,422,000	3,262,000
Allowance for losses	(2,000,000)	(2,000,000)
Net receivables	12,598,000	7,634,000
Cash	4,000	1,000
	$86,273,000	$70,142,000
LIABILITIES AND STOCKHOLDER'S EQUITY		
Commercial paper	$ 6,309,000	
Accounts payable	905,000	$ 837,000
Federal and state income taxes	52,000	188,000
Due parent	3,629,000	5,594,000
Obligations under capital leases (Notes A and C)	72,433,000	61,522,000
Total Liabilities	83,328,000	68,141,000
Common stock ($1.00 par value; 25,000 shares authorized, 1,000 shares issued)	1,000	1,000
Capital in excess of par value	2,000,000	2,000,000
Retained earnings	944,000	
Total stockholder's equity	2,945,000	2,001,000
	$86,273,000	$70,142,000

STATEMENT OF EARNINGS

	Fiscal Year (52 weeks) ended February 25, 1978	February 26, 1977
Finance charges and other income, net	$ 8,017,000	$ 7,364,000
Expenses:		
Selling and administrative	209,000	
Interest	5,867,000	4,942,000
Earnings before income taxes	1,941,000	2,422,000
Provision for income taxes (Note A):		
Currently payable	901,000	1,370,000
Deferred	96,000	51,000
	997,000	1,421,000
Net earnings	$ 944,000	$ 1,001,000

CHANGES IN FINANCIAL POSITION

	Fiscal year (52 weeks) ended February 25, 1978	February 26, 1977
Sources of funds:		
Net earnings	$ 944,000	$ 1,001,000
Additions to obligations under capital leases	10,911,000	6,634,000
Increase in commercial paper	6,309,000	
Decrease in due to parent	(1,965,000)	(2,535,000)
Increase in accounts payable	68,000	179,000
Increase in cash	(3,000)	
Total	$16,264,000	$ 5,279,000
Application of funds:		
Increase in direct finance leases	$11,164,000	$ 6,835,000
Increase (decrease) in notes receivable	6,804,000	(929,000)
Decrease in accounts receivable	(1,840,000)	(439,000)
Decrease (increase) in federal and state income taxes	136,000	(188,000)
Total	$16,264,000	$ 5,279,000

Notes to Financial Statements

A. Summary of significant accounting policies:

Business:

Super Valu Development, Inc., a wholly owned finance subsidiary of Super Valu Stores, Inc., was established as of February 26, 1977 and conducts virtually all of the financing activities associated with the independent retailers doing business with Super Valu Stores, Inc. Net earnings

per share data is not shown as the company is a wholly-owned subsidiary. Results of operations for fiscal 1978 include intercompany charges related to various general and administrative expenses and periodic interest charges based on the average outstanding balance of the intercompany account totaling $569,000. Fiscal 1977 includes inter-company interest charges of $381,000.

Leases:

The Company has retroactively adopted the requirements of Financial Accounting Standards Board Statement No. 13, Accounting for Leases. This increased net earnings for the years ended February 25, 1978 and February 26, 1977 by $111,000 and $99,000 respectively.

Income taxes:

The accounts of Super Valu Development, Inc. are included in the consolidated federal income tax return of Super Valu Stores, Inc. Provision is made for deferred income taxes applicable to timing differences between financial and tax reporting consisting primarily of differences between book and tax revenue recognition and capitalization for financial statement purposes of leases considered direct financing leases.

B. Notes receivable:

Notes receivable relate to fixture and other financing relative to independent retail food operations. Such notes range in length from one to seven years and may be non-interest bearing or bear interest rates ranging from 5% to 15%. The majority of these notes were assigned to Super Valu Development, Inc. by Super Valu Stores, Inc. with no recourse.

Included in notes receivable are amounts due beyond one year totaling $9,691,000 for 1978 and $4,442,000 for 1977. Notes receivable were reduced for unearned financing charges of $3,231,000 and $3,808,000, respectively, at these dates. Unearned financing charges are amortized to earnings using the sum-of-the-years-digits method.

C. Direct financing leases:

The Company leases properties for subletting to certain affiliated retailers for periods generally not exceeding 20 years. These leases have been assigned to Super Valu Development, Inc. by Super Valu Stores, Inc. who will continue to remain primarily liable for payments thereon. Many of these leases and subleases include renewal options and occasionally, but to a much lesser extent, some include options to purchase. Certain leases include provisions for rent in addition to minimum annual rentals based on certain contingencies such as sales performance.

A schedule of minimum future rentals to be received under direct financing leases and minimum future obligations under capital leases in effect at February 25, 1978 follows. All leases are for buildings.

	Direct financing lease rentals receivable	Capital lease obligations
	(In Thousands)	
1979	$ 11,743	$ 10,929
1980	11,128	10,397
1981	10,490	9,791
1982	9,749	9,115
1983	9,129	8,457
Later	79,885	73,261
Total minimum obligation	132,124	121,950
Less unearned income	58,453	
Less amount representing interest		49,517
	$ 73,671	$ 72,433

The current portion of the capital lease obligation due in 1979 is $5,336,000.

Contingent rental income was $1,405,000 and $1,039,000 for 1978 and 1977, respectively. Contingent rent expense was $886,000 and $583,000 in 1978 and 1977, respectively.

Accountants' Report

Stockholders and Board of Directors
Super Valu Stores, Inc.
Hopkins, Minnesota

We have examined the balance sheets of Super Valu Stores, Inc. and consolidated subsidiaries as of February 25, 1978 and February 26, 1977, and the related statements of earnings, stockholders' equity and changes in financial position for the years (52 weeks) then ended. We have also examined the balance sheets of Super Valu Development, Inc. (wholly-owned unconsolidated finance subsidiary) as of February 25, 1978 and February 26, 1977 and the related statements of earnings and changes in financial position for the years (52 weeks) then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the financial position of Super Valu Stores, Inc. and consolidated subsidiaries, and the financial position of Super Valu Development, Inc. at February 25, 1978 and February 26, 1977, and the respective results of their operations and changes in their finanical position for the years (52 weeks) then ended, in conformity with generally accepted accounting principles applied on a consistent basis after restatement for the change, with which we concur, in the method of accounting for leases, as explained in Note A to the financial statements.

Touche Ross & Co.

Certified Public Accountants

Minneapolis, Minnesota — April 4, 1978

Officers

Jack J. Crocker
Chairman, President and Chief Executive Officer

George W. McKay
Vice Chairman of the Board

Michael W. Wright
Executive Vice President

John E. Morrissey
Senior Vice President, Distribution

James L. Slovick
Senior Vice President, Finance, Treasurer

Paul J. van Helden
Senior Vice President, Planning, Information Systems

William S. Bailey
Vice President

L. Rex Burns
Vice President

Homer A. Childs
Vice President and Secretary

Thomas L. Dekko
Vice President, Sales

Charles D. Dugan, Jr.
Vice President, Legal

John B. Ferris
Vice President, Controller

Gene D. Hoffman
Vice President, Marketing President, Super Valu Wholesale Food Companies

Robert R. Hosokawa
Vice President, Communications and Personnel

Lowell J. Janke
Group Vice President

Donald F. Murphy
Group Vice President

John J. Prior
Vice President, Labor Relations

William J. Tyrrell
Vice President

O. Rawley Thomas
Assistant Treasurer

Peter Dorsey
Counsel

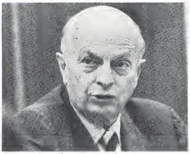
Directors


Jack J. Crocker
Chairman, President and Chief Executive Officer

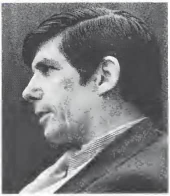

George W. McKay
Vice Chairman of the Board


William S. Bailey
Vice President,
President County Seat Stores, Inc.


Homer A. Childs
Vice President and Secretary


James P. McFarland
Retired Chairman
General Mills, Inc.

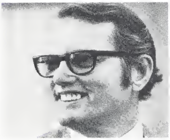

Morris Lewis, Jr.
Retired, Chairman of the Executive Committee


John E. Morrissey
Senior Vice President


Robert W. Mueller
Retired Publisher of Progressive Grocer Magazine
Consultant to the Food Industry


Milton Perlmutter
President
Supermarkets General Corp.
(Deceased March 15, 1978)


James H. Ruben
Group Vice President
General Mills, Inc.


James L. Slovick
Senior Vice President
Treasurer


Paul J. van Helden
Senior Vice President


Arnold R. Weber
Provost
Carnegie-Mellon University


Albert R. Whitman
Retired President
Campbell-Mithun, Inc.


Michael W. Wright
Executive Vice President


James T. Wyman
Retired President
Super Valu Stores, Inc.

Annual Meeting

Stockholders are invited and encouraged to attend the Annual Shareholders' Meeting which will be held in the Conference Theater on the street level of the IDS Center, 7th and Marquette, Minneapolis, Minnesota on Tuesday, June 27, 1978 at 10 A.M. Minneapolis time.

Transfer Agents

First National Bank of Minneapolis
Minneapolis, Minnesota 55440

Morgan Guaranty Trust of New York
New York, New York 10015

Registrars

Northwestern National Bank of Minneapolis
Minneapolis, Minnesota 55440

Chemical Bank
New York, New York 10015

Stock Exchange

The company's Common Shares are listed on the New York Stock Exchange (trading symbol SVU).

Form 10-K

A copy of the annual report to the Securities and Exchange Commission on Form 10-K may be obtained without charge to shareholders from the Secretary's Office after May 30, 1978.

SUPER VALU

SUPER VALU STORES, INC.
101 Jefferson Ave. South
Minneapolis, Minnesota 55343

exciting potential for other liquids, including fruit juices.

Douwe Egberts' quality advertising and outstanding products add up to an exciting future. We are very proud indeed of our association with this fine European company, several centuries old, but with very modern ideas.

Moving back to this side of the Atlantic, in May, we completed the acquisition of Chef Pierre, the leading manufacturer of high-quality frozen pies and other specialty dessert items for the food service market in this country. Chef Pierre's after-tax income has grown, since 1972, at an average annual rate of 33%. We are confident that it can maintain this pace because of exciting prospects for expanding its foothold in the retail market.

The third and last of these important new companies is Hanes Corporation—a consumer marketing company which is a leading retailer of women's pantyhose through both the "Hanes" and "L'eggs" brand names.

As a result of the 1965 merger of Hanes Hosiery Mills Company and P. H. Hanes Knitting Company, Hanes Corporation came into being, initially, as a typical apparel company producing women's hosiery and a brand line of men's and boys' knit

As part of Hanes' new product development program, the company is presently test marketing a new cosmetic line called L'erin, for sale in food and drug stores using the same proven techniques of distribution and recognizably unique packaging.

Hanes is a well-managed, creative company with an outstanding track record in developing, promoting and advertising consumer packaged goods. That is why we are so delighted that Hanes will soon be joining Consolidated Foods.

We are confident that you are as pleased with these fine companies as we are. The repositioning, as I suggested, is now essentially complete. We have restructured the corporation, focusing far more than previously on consumer package goods, together with direct marketing and food service, which we see as our basic strengths. We believe that you will be pleased with the new Consolidated Foods and with the sales and earnings performance we hope to deliver over the years to come.

Summary of Comments by
Alan J. Glazer
Senior Vice President,
Chief Financial Officer

frozen pies.

It was in September that Consolidated Foods' board of directors and the board of directors of the Hanes Corporation signed a merger agreement. Subsequently, we announced that a cash tender offer would be made for outstanding shares of the Hanes Corporation stock. Added to all of this is the fact that Consolidated owns directly 21% of the Hanes Corporation, and has contracted to purchase an additional 23% of the stock. In view of these facts, I think it is safe to say that in the next few months the Hanes Corporation will become a part of Consolidated Foods.

Now, I would like to make a few very brief, but very important, comments on the expectations which you should have for Consolidated Foods in the current fiscal year. It will, indeed, be an important year.

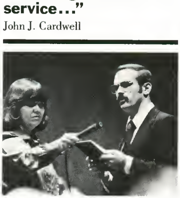
First, you should expect that the current fiscal year ending June 30, 1979, will see the corporation exceed $4 billion in sales for the first time—probably even approach $4.5 billion. This is a major

less prominent than they have been in the year just past.

I do not want to suggest that after this year, Consolidated Foods will never again divest a company or make substantial acquisitions. I do look forward, with a great deal of pleasure, to saying in a few months that the era of about four years of substantial shifting of product positions—the buying and selling of many companies—has ended at Consolidated Foods.

With that major accomplishment behind us, you can expect increasing emphasis on building internally the major positions which make up Consolidated Foods. Over the last few years, as we have been repositioning the company, we have simultaneously been strengthening the management throughout the corporation, increasing investment spending for the company, building a higher quality earnings base, and developing exciting internal growth plans. These efforts have brought us internal growth over the last three years, and you can expect increased emphasis

"We have restructured the corporation, focusing far more than previously on consumer packaged goods, together with direct marketing and food service..."
John J. Cardwell



With operating management from all areas of the corporation in attendance, the annual meeting provides shareholders with the opportunity to obtain direct responses to individual questions.

John J. Cardwell, president, described how the corporation has acquired "positions in three exciting new businesses."
Below: R. Roy Pearce, recently retired senior vice president of the corporation's institutional food service group, was elected to the board of directors during the annual meeting.

on that by your company.

Finally, this is my fifth year to stand before you at the annual shareholders' meeting. Without qualification, I have never been more pleased or more confident about the future of this company. Some have said that the job of top management is managing the future. Essentially, that is what we have been doing over the last few years. We are pleased that current results have been good, but it is far more exciting to look forward to the direction Consolidated Foods is heading. We genuinely have the highest and most confident expectations.

And, on behalf of the management and the board of directors, I want to thank you—the shareholders—for your continuing support of us all.

Summary of Comments by John J. Cardwell, President

Fiscal 1978 will be remembered in the history of Consolidated Foods as the year in which we accomplished significant redirection of our corporate focus by a very active program of both divestments and acquisitions. At this point, the divestment program is very nearly completed. As we previously announced to you, we have during the last year and a half or so, sold more than 40 companies as we exited positions that failed to meet our strategic criteria of profitability or business fit.

Important as these divestments have been, however, we are even more excited about the acquisitions that have been accomplished.

In our 1976 annual report we announced that Consolidated Foods "will seek integrating acquisitions which contribute directly and immediately to our major product lines through strong similarities of product design, manufacturing technology or distribution channels... Furthermore, on a highly discriminating basis, we intend to seek other acquisitions which will permit us to establish an immediate market position in previously identified new industries..."

In line with this policy, several integrating acquisitions were made. Two acquisitions strengthened the Specialty Meats Group. First, the group gained a foothold on the West Coast by acquiring Cooks Processed Foods, Inc., of Los Angeles, a company which produces corned beef, pastrami, and related products. Second, Heim Brothers Packing Company, a meat processor in Little Rock, gives the Specialty Meats Group new capacity to assist in geographic expansion.

The PYA/Monarch Food Service Group also benefited from two key acquisitions. S. Vogel Sons, Inc., with headquarters in Hartford, provides an additional geographic link to the Eastern United States network. The Harrison House division of Super Valu Stores, Inc., with distribution branches in Minneapolis, Des Moines and Fort Wayne, complements existing Monarch operations in Chicago and Detroit. Harrison House also brings marketing expertise in the sale of food service equipment, an area that previously had not been actively pursued by the group.

More importantly than these relatively smaller integrating acquisitions, your corporation has also acquired positions in three exciting new businesses. Two of the acquisitions are already completed—Douwe Egberts and Chef Pierre—and one remains to be completed shortly—Hanes.

Douwe Egberts is a premier producer of coffee, tea and tobacco, headquartered in Utrecht in the Netherlands. In January of this year, we acquired 65% of the outstanding shares of Douwe Egberts because of our extraordinarily high regard for the company's product and marketing capabilities.

You will be interested to know that Douwe Egberts' reputation for quality and service began more than 200 years ago, in fact, in 1753, when Egbert Douwe's son opened a small coffee shop in Joure in the Netherlands. That modest beginning has grown to its present pre-eminent position with more than a 60% share of the Dutch market in its basic product lines.

A particularly fast-growing segment of Douwe Egberts, and one that you may be more likely to hear of in this country, is Moccomat International, whose Moccomat frozen coffee concentrate system was recently introduced to U.S. food service outlets. Moccomat, which can produce up to 4,000 cups of coffee per hour, offers excellent tasting coffee and with less waste than conventional systems. Incidentally, the frozen concentrate technology may have

"...the year in which we accomplished significant redirection of our corporate focus by a very active program of both divestments and acquisitions."
John J. Cardwell

Directors of the corporation standing for re-election were introduced to shareholders prior to balloting. All members of the board were subsequently re-elected.
Below: One of two directors who joined the board during the past year, Gualtherus Kraijenhoff was re-elected at the annual meeting. Mr. Kraijenhoff is vice chairman of AKZO, N.V., an international chemical and fibers company based in the Netherlands and also a member of the board of supervisors of Douwe Egberts B.V.

John J. Cardwell described to shareholders the corporation's acquisition in January of 65% interest in Douwe Egberts, a premier Dutch producer of coffee, tea and tobacco products.

Cash flow from operations last year was $150 million, which more than adequately funded the significant ongoing activities of the company. Our forecast for cash flow for the current fiscal year again indicates that we will be generating, from internal sources, the funds necessary to finance the continued growth of our existing businesses.

Concerning the financial aspects of our investment in, and planned merger with Hanes:

- We cannot, as yet, determine with any degree of precision how the financing for the complete transaction will be structured, due to the options offered the Hanes' shareholders. However, at this time, we anticipate that the external, long-term financing needs will not exceed $75 million to $100 million.
- The form of the external financing will be such that our strong balance sheet will be maintained and our earnings will not be diluted. Assuming the transaction is completed as planned, we do not foresee a significant incremental earnings gain or loss in the current year, as a result of the merger. This is basically due to the write-up of the Hanes' assets—primarily inventory. Next year, after the inventory turns over, we anticipate an incremental income contribution from Hanes.

"Our forecast for cash flow... again indicates that we will be generating, from internal sources, the funds necessary to finance the continued growth of our existing businesses."

Alan J. Glazer

Alan J. Glazer, senior vice president and chief financial officer, detailed the financial aspects of the planned merger with Hanes Corporation and offered an overview of the financial decisions made during fiscal 1978.

taxes declined to 44.7% from 49.7% last year, primarily due to lower effective tax rates applicable to foreign earnings.

Operating Review

In keeping with the format established in the 1978 annual report to shareholders, the operating review is organized as the corporation is structured—around 10 major core units in three principal business groups:

Consumer Packaged Goods

A major part of the sales and earnings improvements were attributable to the inclusion of 100% of Douwe Egberts' sales and 65% of the Dutch firm's earnings in accordance with generally accepted accounting principles.

The Kitchens of Sara Lee posted an overall sales gain as a result of substantial volume increases in its Australian retail market and continued sales growth in the United States. Earnings were slightly off and earnings. Increased unit sales volume and the effect of integrating acquisitions made in the second and third quarters of fiscal 1978 were responsible for the excellent results.

Lawson's registered a substantial improvement in sales and earnings as a result of successful merchandising programs and higher sales volume. An aggressive store building program, currently underway, will add a significant number of new stores during this fiscal year.

Electrolux and Diversified Products

First quarter sales and earnings for Electrolux increased over the prior first quarter. The better results came from higher unit volume and improved pricing in the U.S.

Diversified Products Group companies, including Intradal, Lardenois, and Lyon's Restaurants, logged impressive sales and earnings gains. Tyco's sales rose, but earnings were reduced slightly due to higher marketing and distribution costs.

Highlights of the Annual Meeting

Summary of Comments by John H. Bryan, Jr., Chairman and Chief Executive Officer

Last year at our annual meeting, I stated it was my judgment that acquisition activity at Consolidated Foods would be much more prominent in the year ahead. That prediction turned out to be something of an understatement.

Since we met last year, a number of acquisitions have been accomplished or announced. Annual sales of the new companies total approximately $1.5 billion. It is another understatement to say that these new companies will have a significant impact on the future of your corporation.

The major purpose of our presentation to you this year is to introduce three of those acquisitions—the three most important. In January, Consolidated Foods acquired 65% of the outstanding stock of Douwe Egberts. Douwe Egberts is truly one of Europe's finest consumer products companies. In May, Consolidated Foods acquired Chef Pierre, one of this country's leading manufacturers of

underwear and other knitted products. But, Hanes took a bold new direction in applying consumer marketing techniques to a brand of pantyhose to be sold in supermarkets and drug stores. The company designed a unique package, created a new image, and pioneered a new distribution system for a pantyhose called L'eggs. Between 1968 and 1970, L'eggs was researched, test marketed and introduced. Since full-scale introduction of L'eggs in 1971, Hanes' sales and earnings have consistently risen.

A major, successful ingredient has been Hanes' distribution methods. L'eggs are sold directly to grocery and drug stores on a consignment basis by the company's own sales force. It both stocks and sells from its own fleet of trucks. Inventory swings caused by overstocking are avoided, and Hanes gets much more accurate information about actual consumer purchases. It is also easier to get Hanes' products into stores since the retailer does not have to tie up inventory dollars.

increase and a significant milestone. You should also expect that the earnings of Consolidated Foods will again—for the fourth straight year—achieve a record level, a level which we currently believe will be at least equal to the increase achieved in the year just ended.

Further, management and the board of directors will have some financing decisions to make in this current fiscal year, and you should expect, that the quality standards which have long characterized Consolidated Foods' balance sheet will not be compromised.

Now, what should you expect with regard to the strategies at Consolidated Foods, those strategies which we have been discussing with you for the last few years? The 1979 fiscal year which ends next June 30, will see the end of a major repositioning of Consolidated Foods which began about three and one-half years ago. There are only a few divestments remaining to be made. By the end of this fiscal year, we will have no more divestments to be made as part of this repositioning program.

Concerning acquisitions, we, of course, look forward to the conclusion of our merger with the Hanes Corporation. But you can be sure that further acquisitions by Consolidated Foods will be much

Last year, we not only recorded record operating performance, but, among other things, we also:

- Invested $150 million for 65% of Douwe Egberts;
- Completed the acquisition of Chef Pierre; and
- Successfully privately placed $100 million of debentures.

As a result of conservative fiscal management, your company's balance sheet at the end of the fiscal year was one of the strongest in its history. We still have the financial ability to take advantage of attractive investment opportunities as they may present themselves.

In this connection, it is again important to note that our debentures continue to enjoy their excellent double "A" rating from both major rating agencies. In addition, the commercial paper issued by our credit corporation enjoys an A-1 rating—the highest rating for this type of instrument.

"Without qualification, I have never been more pleased or more confident about the future of this company."
John H. Bryan, Jr.

John H. Bryan, Jr., chairman and chief executive officer, reviewed the corporation's progress with a record number of shareholders at the 1978 annual meeting.

Consolidated Foods' founder and hononary chairman, Nathan Cummings, greeted shareholders before and after the annual meeting. During the meeting he reviewed the corporation's growth from a small grocery wholesaler to a diversified multi-billion dollar employer of more than 100,000 people.

John H. Bryan, Jr., details the corporation's major repositioning efforts accomplished during fiscal 1978 in response to reporters' questions during a news conference following the annual meeting.

Condensed Balance Sheets

Consolidated Foods Corporation and Subsidiaries

Assets (in thousands of dollars)	Sept. 30, 1978	July 1, 1978	Oct. 1, 1977
Cash and short-term investments	$ 123,000	$ 111,000	$ 100,000
Trade accounts receivable, less allowances	420,000	383,000	268,000
Inventories	534,000	508,000	374,000
Other current assets	26,000	33,000	22,000
Total current assets	1,103,000	1,035,000	764,000
Investment in Consolidated Foods Credit Corporation	14,000	13,000	13,000
Investment in Hanes Corporation	42,000	8,000	—
Notes receivable and other assets	26,000	24,000	19,000
Property, net	468,000	467,000	341,000
Intangible assets	114,000	116,000	85,000
	$1,767,000	$1,663,000	$1,222,000
Liabilities and Stockholders' Equity			
Notes payable to foreign banks	$ 41,000	$ 15,000	$ —
Other current liabilities	585,000	530,000	316,000
Total current liabilities	626,000	545,000	316,000
Long-term debt	262,000	262,000	164,000
Minority interests	66,000	61,000	3,000
Other liabilities	73,000	68,000	46,000
Stockholders' equity	740,000	727,000	693,000
	$1,767,000	$1,663,000	$1,222,000
Working capital	$ 477,000	$ 490,000	$ 448,000

increased the dividend paid on common stock, and it is our intention to continue increasing the cash return on your investment. Based on our positive outlook for the coming year, the board has voted to raise the annual common stock dividend rate 10 cents per share to $1.60. This is the 132nd consecutive quarterly dividend declared by Consolidated Foods.

The new quarterly dividend of 40 cents per common share is payable January 2, 1979, to shareholders of record December 4, 1978. The corporation will also pay the regular $1.125 quarterly dividend on its $4.50 convertible preferred stock on January 2, 1979, to shareholders of record December 4, 1978.

Hanes Agreement Signed

During the quarter, the corporation signed a definitive merger agreement and announced plans to issue a tender offer for the outstanding shares of the Hanes Corporation. Hanes is a leading producer and marketer of women's hosiery through both the "Hanes" and "L'eggs" brand names. Hanes is a well-managed, creative company with an outstanding record in

common and preferred shares, 26,431 proxies were received representing 22,379,034 shares or 73.5% of the shares outstanding.

Outlook

We expect that the current fiscal year ending June 30, 1979, will see the corporation exceed $4 billion in sales—a major milestone. You should expect earnings to achieve a record level for the fourth straight year.

Sincerely,

John H. Bryan, Jr.

John H. Bryan, Jr.,
Chairman and Chief Executive Officer

John J. Cardwell

John J. Cardwell,
President

November 30, 1978

Financial and Operating Review

Financial Review

Net earnings per common share for the first quarter were 88 cents, an increase of 10 cents or 12.8% above the same quarter last year. Net income rose 11.7% to $27,360,000 from last year's first quarter total of $24,493,000. The corporation's sales advanced 35.2% to $1,059,323,000.

Sales from continuing operations rose in every division, with substantial increases being registered by the Specialty Meats companies, PYA/Monarch Food Service, Chef Pierre, Booth Fisheries and Shasta. In addition, the quarter's results were significantly affected by the inclusion of Douwe Egberts' strong performance. Consolidated Foods acquired a 65% interest in Douwe Egberts in the third quarter of fiscal 1978.

Selling, general and administrative expenses rose 25.1%, which is considerably less than the rate of the sales increase. Net interest expense increased $2,517,000 to $4,920,000 as the result of a $100,000,000 note privately placed in March, 1978, which was used to refinance short-term debt. Income taxes as a percent of income before

due to higher manufacturing expenses.

The Specialty Meats Group's sales advanced significantly through greater unit volume, coupled with increased prices. Earnings were modestly affected due to lower margins on processed meats.

Led by substantial sales volume increases at Booth Fisheries and Idaho Frozen Foods, the Grocery and Confections Group's sales advanced moderately, while earnings grew markedly. Chef Pierre posted improved sales as a result of higher volume and the addition of a new food service pie slice line.

Shasta recorded improved sales, but earnings were down from the previous first quarter because of intense competition in key markets, and higher distribution and promotion expenses.

Among the Apparel and Home Furnishings companies, Aris Gloves, Graber and Robert Bruce posted sales and operating earnings gains. Sales and earnings were behind last year at Gant due to timing of fall product shipments, as well as conservative attitudes of department stores toward building inventories.

Retail and Food Service
The PYA/Monarch Food Service Group registered significant gains in both sales

Record operating results, a dividend increase, the Hanes agreement and a positive outlook noted during first quarter of fiscal 1979.

**Summary—
First Quarter Fiscal 1979**

Net income per common share advanced 12.8% to 88 cents.

Net income increased 11.7% to $27,360,000.

Sales were up 35.2% to $1,059,323,000.

Consolidated Statements of Income

Consolidated Foods Corporation and Subsidiaries

(in thousands of dollars except per share data)	First Quarter Ended Sept. 30, 1978	Oct. 1, 1977	Percent Change
Net Sales	$1,059,323	$783,560	35.2%
Cost and Expenses:			
Cost of sales	757,377	541,545	
Selling, general and administrative expenses	238,356	190,554	
Interest, net	4,920	2,403	
	1,000,653	734,502	
Income Before Income Taxes and Minority Interests	58,670	49,058	19.6%
Income Taxes	26,232	24,390	
Income Before Minority Interests	32,438	24,668	
Minority Interests	(5,078)	(175)	
Net Income	$ 27,360	$ 24,493	11.7%
Net Income Per Common Share	$.88	$.78	12.8%
Net Income Per Common Share Assuming Conversion of Preferred Stock	$.85	$.75	13.3%

Consolidated Foods Corporation
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Chicago, Illinois 60603

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Consolidated Foods Corporation

Interim Financial Report First Quarter 1979 and Report on the Annual Meeting

To Our Shareholders

We are pleased to report that Consolidated Foods' fiscal 1979 first quarter sales, earnings and earnings per share set new records. In addition, an increase in the quarterly dividend was declared. This report details those results and provides a review of our 38th annual meeting which was held on October 26.

Net income during the quarter rose 11.7% to $27.4 million, compared with $24.5 million in the first quarter of last year. Earnings per share increased 12.8% to 88 cents from 78 cents in the same quarter a year earlier. Sales for the quarter ended September 30, 1978, increased 35.2% to a record $1,059.3 million, up from $783.6 million in the prior first quarter.

The quarter just completed was the 12th consecutive period in which earnings improved over the same prior year quarter. The excellent results came from improved performance at many of our operating companies.

Increased Dividend Declared
In most years throughout the history of the corporation, the board of directors has

developing, promoting and advertising consumer packaged goods. We expect the merger to be completed during the third fiscal quarter.

Corporate Organization
R. Roy Pearce, vice president of the corporation's institutional food service group until his retirement this year, was elected to the board of directors at the annual meeting. With Mr. Pearce as director, the corporation will continue to benefit from his management expertise, which is well known throughout the food service industry. All other directors were re-elected.

James T. Pearce, formerly president of the Monarch Institutional Foods division, was elected a senior vice president of Consolidated Foods and named chairman of the newly formed PYA/Monarch Food Service Group. The corporate staff was further strengthened with the addition of Richard D. Kemplin as vice president of corporate affairs.

Annual Meeting
We would like to thank the record number of shareholders who attended the annual meeting and those who submitted their proxies. For the 30,459,370 outstanding

The quarter just completed was the 12th consecutive period in which earnings improved over the same prior year quarter.

On the cover:
Shareholders and corporate officers visit informally prior to the annual meeting held October 26, 1978 in The First Chicago Center, One First National Plaza, Chicago.

Note:
As of September 30, 1978, the Corporation has acquired 905,900 shares of the common stock of Hanes Corporation ("Hanes") (representing approximately 21% of total outstanding shares) at an aggregate cost of $41 million and has entered into agreements with certain shareholders of Hanes to purchase an additional 1,019,734 shares of the common stock of Hanes (or 23.7% of the total outstanding shares) for approximately $62 million in cash and notes and into a merger agreement with Hanes for the acquisition of the remaining outstanding common stock of Hanes for approximately $147 million. The merger agreement provides that the shareholders of Hanes may elect to receive either $61 cash for each Hanes share or, in lieu of cash, convertible notes of the Corporation in the principal amount of $61 per Hanes share. The consummation of the merger is subject to shareholder approval, appropriate filings with the Securities and Exchange Commission and favorable tax rulings or opinions. Preceding the merger, the Corporation intends to make a cash tender offer on or about November 15, 1978 to purchase any outstanding Hanes common stock for $61 cash. The investment in the Hanes shares is accounted for on the equity basis; accordingly, the Corporation's portion of Hanes' net income has been included in the Corporation's net income for the three months ended September 30, 1978.

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D. C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended July 1, 1978 Commission file number 1-3344

CONSOLIDATED FOODS CORPORATION
(Exact name of registrant as specified in its charter)

Maryland (State of Incorporation)	36-2089049 (I.R.S. Employer) Identification No.)
Room 1625, 135 South LaSalle Street Chicago, Illinois (Address of principal executive offices)	60603 (Zip Code)

Registrant's telephone number, including area code: (312) 726-6414

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, $1.33-1/3 par value	New York Stock Exchange, Inc. Midwest Stock Exchange Pacific Stock Exchange, Inc.
$4.50 Cumulative Convertible Preferred Stock, Series A, no par value	New York Stock Exchange, Inc.
7-3/8% Sinking Fund Debentures due 1996	New York Stock Exchange, Inc.

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ✓ No____.

On July 1, 1978, the registrant had outstanding 29,344,757 shares (excluding treasury shares) of common stock of $1.33-1/3 par value, which is registrant's only class of common stock.

PART I

ITEM 1. BUSINESS

Consolidated Foods Corporation ("Company" or "corporation") is a diversified company engaged in the manufacturing, processing and distributing of a broad range of products and services. These products and services have been classified into the following five segments: Frozen and Processed Foods; Food Services; Beverages and Confections; Home Products and Services; Apparel and Commercial Products. The sales and operating results of each industry segment and the sales by class of products, accounting for more than 10% of the Company's sales, are set forth in the tables entitled "Operating Results by Industry Segment" and "Sales by Class of Products" on page 35 of the 1978 Annual Report to Stockholders which is incorporated herein by reference. The identifiable assets attributable to each industry segment are set forth in the footnote entitled "Industry Segment and Geographic Information" on page 42 of the 1978 Annual Report to Stockholders which is incorporated herein by reference.

SIGNIFICANT DEVELOPMENTS

During the year the Company consummated several acquisitions and divestitures.

In January 1978, the Company acquired 65% of the outstanding stock of Douwe Egberts Koninklijke Tabaksfabriek-Koffiebranderijen-Theehandel B.V., ("Douwe Egberts") for approximately $150 million cash. Douwe Egberts, a Dutch corporation based in Utrecht, The Netherlands, is a producer and distributor of coffee, tea and tobacco products. In May, 1978, the Company acquired Chef Pierre, Inc., a producer of frozen pies and other baked goods, primarily for the institutional market, for 1.38 million shares of the Company's common stock.

During 1978 the Company also acquired two regional institutional food distributors -- Harrison House, a division of Super Valu Stores, Inc., based in Minneapolis, Minnesota, with other locations in Des Moines, Iowa and Fort Wayne, Indiana, and S. Vogel Sons, Inc., based in East Hartford, Connecticut, and two specialty meat producers -- Cooks Processed Foods, Inc. in Los Angeles and Heim Brothers Packing Company of Little Rock, Arkansas.

The Company has announced that it has reached an agreement in principle to acquire the Hanes Corporation, headquartered in Winston-Salem, North Carolina. Hanes' principal product line is women's hosiery sold under the "L'eggs", "Underalls", "Sheer Energy" and "Hanes" trademarks and various other proprietary marks. Hanes' other principal lines of business are men's and boys' underwear sold under the "Hanes" trademark and women's foundation garments sold under the "Bali" trademark.

It is anticipated that the acquisition will involve a total investment of approximately $250 million in cash and notes by the Company. Hanes had net earnings of $20.8 million on sales of $414 million for the year ended December 31, 1977.

Since the Company's last report on Form 10-K, the Company has sold for cash and notes its Cosco Industries Division, a producer of labeling and marking equipment; Russel Taylor Division, a producer of imitation fur coats and ladies' sportswear; Authentic Furniture Products Division, a producer of low to medium priced furniture; Charter Supply Division, a producer of custom made plastic bottles; Chicago Transparent Division, a producer of polyethylene bags; Oxwall Tool Division, a seller of hand tools; Prager Brush Division, a manufacturer of paint brushes and rollers; Plasti-Kote Division, a manufacturer of aerosol spray paints; Max Klein Division, a manufacturer of plastic housewares; and Val D'Or Division, a manufacturer of sportswear.

Reference is made to the footnote entitled "Acquisitions and Dispositions" on page 41 of the 1978 Annual Report to Stockholders which is incorporated herein by reference.

FROZEN AND PROCESSED FOODS

The Frozen and Processed Foods Group produces and sells frozen baked goods; fresh meat, processed meat and sausage products; fish and seafood products; canned and processed fruits and vegetables; refined sugar; specialty ice cream products; pickles, relishes, herring and sauerkraut.

The Kitchens of Sara Lee Division produces a wide variety of frozen bakery products which include cakes and pastries sold primarily through brokers to supermarkets, retail outlets and institutional buyers throughout the United States, Canada, the United Kingdom and Australia, and by export to certain countries in the Far East and Western Europe.

The Kahn's Division and its divisions process and sell beef, pork and sausage products under the "Kahn's", "Hillshire Farm", "Rudy's Farm", and "Cooks" labels through its own sales force to retail food chains and institutional buyers. Kahn's markets are principally in the midwestern and eastern United States, with sales in the western United States and other parts of the country. Bryan Foods, Inc. processes and cans beef, pork and sausage products under the "Bryan" and "Bryan Prairie Belt" labels for distribution primarily in the southern and southeastern United States.

The Booth Fisheries Division procures, processes and distributes frozen and fresh fish and seafood through various distribution branches and brokers to retail accounts and institutional buyers throughout most of the United States and Canada under the "Booth" label.

Chef Pierre, Inc. produces frozen fruit pies, other frozen prepared desserts and frozen breads and rolls which are sold primarily through brokers and distributors to institutional buyers and retail outlets principally in the midwestern United States.

The Idaho Frozen Foods Division produces and sells frozen potato products under its principal label "Rus-Ette" through its own sales force and brokers to institutional wholesalers and food distributors throughout the United States.

Jonker Fris, B.V., a Dutch subsidiary, processes and sells canned fruits, mushrooms, vegetables, jellies and preserves through its own sales force to retailers principally in western Europe under the "Jonker Fris" label.

The Bloch & Guggenheimer Division processes and sells pickles, relishes, sauerkraut and herring under the "B & G" and "Wellworth" labels primarily in the northeastern United States.

The Union Sugar Company Division produces granulated and liquid beet sugar, substantially all of which is sold to food processors for use in the processing of other food products, primarily in the western United States.

FOOD SERVICES

The Food Services Group operates convenience retail food stores and restaurants and distributes food products and related grocery products to volume feeding operations.

The Lawson Milk Company Division operates 730 convenience food stores under the "Lawson" name on leased premises in Ohio, Pennsylvania, Michigan, Indiana, and North Carolina, which sell milk, ice cream, bread and other bakery goods produced in its own dairy and bakery as well as other food products and grocery items under its own labels purchased from other suppliers and distributors. Dairy and bakery products, virtually all of which are produced by Lawson, account for approximately one-third of Lawson's sales.

The Lyon's Restaurants Division operates 32 family style restaurants on the Pacific Coast, but primarily in California, under the "Lyon's" name. Substantially all of the Lyon's restaurants are operated on leased premises.

The PYA/Monarch Division distributes food and grocery products to volume feeding operations such as restaurants, hotels, industrial cafeterias, schools and hospitals throughout several of the large metropolitan areas in the United States. The Division distributes products under the "Monarch" label and other well-known brands of independent producers and maintains its own direct sales force.

BEVERAGES AND CONFECTIONS

The Beverages and Confections Group produces, sells and distributes hot and cold beverages, tobacco, soft drinks, candy and frozen confection products.

The Shasta Beverages Division produces, sells and distributes a wide variety of regular and diet carbonated soft drinks in cans and bottles throughout the United States and western Canada under the "Shasta" label through its own sales force and through brokers to retail outlets. A discussion of the competitive environment in which Shasta operates and the effect of the proposed ban by the U. S. Government on the use of saccharin in diet food products is contained on page 16 of the 1978 Annual Report to Stockholders which is incorporated herein by reference.

Douwe Egberts, B.V., processes and sells coffee, tea and tobacco under the "Douwe Egberts" label and various other proprietary trademarks. Douwe Egberts' principal markets are The Netherlands and Belgium with sales in other parts of Western Europe, the United States and Canada. Coffee is Douwe Egberts' principal business representing 76% of its sales. A significant cost item in Douwe Egberts' coffee products is the price of coffee beans on the world market. Coffee bean prices vary depending on a variety of factors over which Douwe Egberts has no control such as weather and political conditions in the producing countries, unilateral pricing policies of producing nations and the relative valuations and fluctuations of the currencies of the producing and buying countries.

The Popsicle Industries Division produces and sells ingredients and supplies for the producing of frozen confections which are sold throughout the United States and Canada primarily under "Popsicle", "Fudgsicle", and "Dreamsicle" and other proprietary trademarks.

The Hollywood Brands Division produces, sells and supplies candy bars throughout the United States, primarily under the names of "Pay Day", its leading bar, "Butternut", "Zero", and "Milk Shake", through brokers and candy jobbers to retail outlets, supermarkets and for vending machines. The Delson Candy Division produces a full line of mint candies and boxed specialty candies primarily under the "Delson" and "Merrimints" labels which are sold throughout the United States.

HOME PRODUCTS AND SERVICES

The Home Products and Services Group manufactures and sells home cleaning appliances, home furnishings, housewares, personal care products, rental services and hobby goods.

The Electrolux Division and its operating companies manufacture and sell home cleaning appliances, primarily household vacuum cleaners, floor polishers and related accessories and attachments, and commercial vacuum cleaners and polishers and waxes for floor care, under the trademark "Electrolux", throughout the United States and Canada. Electrolux's household products are sold exclusively by its own force of door-to-door salespersons. In 1978, the Electrolux Division introduced a home water treatment system under the "Aqualux" trademark, which is sold nationally through a separate door-to-door sales force. The Electrolux Division also manufactures and sells commercial hand floor cleaning equipment under the trademark "White", wet and dry mops, chemical and cleaning compounds, and vacuum cleaner hoses, all of which are sold throughout the United States and Canada.

The Fuller Brush Company manufactures a wide variety of brushes, household cleaning and maintenance products, personal care products and cosmetics principally under the "Fuller" trademark which are sold through independent door-to-door salespersons throughout the United States, Mexico and Canada. Fuller's Industrial Division sells a line of products (brushes, waxes, polishes and cleaning chemicals) especially adapted or formulated for commercial building cleaning.

The Graber Company produces and sells drapery fixtures, fabrics, window shades, woven woods, blinds and related accessories throughout the United States and Canada, primarily under the "Graber", "Pride", "Conso" and "Elegance" trademarks.

The Spectrum Fabrics Division is a converter of decorative fabrics sold to manufacturers of upholstered furniture, custom draperies, slip covers, pillows and bedspreads.

Intradal N.V., based in The Netherlands, manufactures and sells branded products for personal care, household and automotive use under various trademarks throughout most of Western Europe, Canada, Indonesia and, to a lesser extent, in the United States. The products of Intradal include "Valma" automobile waxes and polishes, "Prodent" toothpaste and toothbrushes, "Odorex" deodorants and "Tana" shoe care products.

Etablissements Lardenois, a French company, manufactures and markets a wide variety of branded cosmetic and beauty care products, toilet articles, plastic bathroom and kitchen accessories, and household paint brushes, principally in France, but with sales in Western Europe, the United States and Canada, primarily under the trademarks "Miss Den", "Den" and "Roger Para". Lardenois products are sold through wholesalers and supermarkets, chain, department, cooperative, independent and food stores.

The Abbey Medical/Abbey Rents Division operates 44 stores under the "Abbey Rents" trade name in the principal metropolitan areas in the western half of the United States for the rental and sale of sickroom and convalescent equipment and party supplies.

Tyco Industries, Inc. manufactures and sells HO gauge electric trains and HO track racing car sets for hobby use under its "Tyco" and "Tycopro" trademarks throughout the United States and Canada.

Except as specifically noted, each of the above divisions distributes its products through its own sales force to retailers, department stores and mass merchandisers.

APPAREL AND COMMERCIAL PRODUCTS

The Apparel and Commercial Products Group produces and sells products and renders services including specialty chemicals; building maintenance

and security services; commercial vehicle cleaning equipment and supplies; gloves; men's sweaters, slacks and shirts; women's undergarments, sportswear and swimwear.

The Oxford Chemical Division produces specialty chemical products used in cleaning and sanitation maintenance of commercial buildings, plants, factories and transportation equipment under its principal trademarks, "Sanfax", "Oxford" and "Center", which are sold throughout the United States and Canada.

The Oxford Building Services Division supplies janitorial, maintenance and security services to commercial buildings principally in the southern and southeastern United States.

The Sanders Paints Division produces and sells paints and related supplies under its "Sanders" trademark for interior and exterior painting and decorating, and operates eight retail home decorating stores in the State of Georgia.

Canadian Lady-Canadelle, Inc. manufactures and sells women's undergarments principally under the "Wonder Bra" label to retail outlets primarily in Canada and by license agreement in Western Europe.

The Robert Bruce Division manufactures and sells men's and boys' knitted sweaters, shirts, slacks and sportswear, principally under the "Robert Bruce", "Arnold Palmer", and "Jimmy Connors" trademarks throughout the United States to retail outlets.

Gant Incorporated manufactures and sells men's and boys' dress shirts and sportswear and women's sportswear under the "Gant" and "Rugger" labels to retail stores throughout the United States.

The Aris-Isotoner Gloves Division manufactures and sells gloves for dress and sports use and cosmetic gloves under the "Aris" and "Isotoner" labels to retailers throughout the United States.

The Sirena Division manufactures and sells a line of women's and girls' swimwear and beachwear under the "Sirena" label to retailers.

Each of the above divisions maintains its own sales force.

COMPETITIVE CONDITIONS

Substantially all of the Company's operations are in highly competitive businesses. The Company's competitors include a number of large national and multi-national companies as well as small enterprises. The Company's principal method of competition in all segments of its business is to sell high quality branded products with substantial customer recognition. The Company's various segments engage in different methods of competition which depend on the market served and vary from business to business.

For example, the Home Products and Services Group depends to a great extent on the unique advantages that door to door selling affords and the Food Services Group depends upon price and quality of service in the institutional foods division and convenience of location and hours in the Lawson Milk Division.

EMPLOYEES

At July 1, 1978, the Company and its subsidiaries employed approximately 80,900 persons, of whom approximately 53,800 were employed in the United States.

FOREIGN OPERATIONS

The Company's foreign operations are primarily conducted through wholly or partially owned subsidiaries incorporated outside of the United States. With the acquisition of Douwe Egberts, a substantial portion of the sales of the Beverages and Confections segment are attributable to foreign operations. Additional information regarding foreign investment and operations appears in the footnote entitled "Industry Segment and Geographic Information" on page 42 of the 1978 Annual Report to Stockholders which is incorporated herein by reference.

ITEM 2. SUMMARY OF OPERATIONS

For the five year financial summary of operations refer to the Five Year Comparative Financial Summary sections entitled "Results of Operations" and "Dividends", on page 30 of the 1978 Annual Report to Stockholders incorporated herein by reference.

Included in the five year summary of operations are charges and credits in 1974 through 1976 related to discontinued operations which are discussed below:

As of March 29, 1975, the Board of Directors adopted a plan authorizing the disposition of the assets and businesses of The Fuller Brush Company and all of the corporation's furniture divisions. The "Provision for estimated loss on disposition" included in the summary of operations for 1975 was $28,900,000 ($1.00 per share), net of income tax credits of $27,700,000. The provision was based upon the estimated realizable value, net of costs to sell, of the corporation's investment in the operations to be discontinued and did not include an estimate of the operating results of these businesses subsequent to March 29, 1975, since the amounts and specific disposal dates could not be accurately determined.

On April 29, 1976, the Board of Directors withdrew The Fuller Brush Company from the plan of disposition and retained it as a continuing operation. The decision of the Board of Directors was based upon the highly favorable results obtained from the plan to consolidate and restructure the operations of Fuller Brush which was initiated after the plan of disposition was adopted in order to arrest operating losses and to improve the financial condition of Fuller Brush so that the corporation could realize an optimum selling price.

As a result of the decision to retain Fuller Brush, the provision for the estimated loss on disposition applicable to Fuller Brush of $12,000,000 ($.41 per share), net of income taxes of $11,500,000, was credited to income in 1976 as a separate component of net income under the caption "Discontinued Operations".

MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE SUMMARY OF OPERATIONS

For management's discussion and analysis of operations, refer to the Financial Review section entitled "Comparison of 1978 to 1977" and "1977 Compared to 1976" on pages 31 through 33 of the 1978 Annual Report to Stockholders incorporated herein by reference.

ITEM 3. PROPERTIES

The Company and its subsidiaries operate approximately 129 food processing and consumer product manufacturing plants containing more than 20,000 square feet in building area in 36 states and 12 foreign countries. The Company and its subsidiaries own 84 and lease 45 of these plants.

The Company also operates approximately 65 warehouses that contain more than 20,000 square feet in building area in 23 states and 4 foreign countries. The Company and its subsidiaries own 11 and lease 54 of these warehouses.

The following table describes the plants and warehouses presently operated by the Company and its subsidiaries that contain more than 250,000 square feet in building area:

Industry Segment, Division or Subsidiary	Location	Approximate Building Area in Square Feet	Owned or Leased
Frozen and Processed Foods			
Booth Fisheries	Chicago, Illinois	316,000	Owned
Bryan Foods	West Point, Mississippi	559,000	Owned
Chef Pierre, Inc.	Traverse City, Michigan	275,000	Owned
Jonker Fris	Heusden, The Netherlands	279,000	Owned
E. Kahn's Sons	Cincinnati, Ohio	525,000	Owned
Kitchens of Sara Lee	Deerfield, Illinois	602,000	Owned
Kitchens of Sara Lee	New Hampton, Iowa	320,000	Owned
Food Services			
Lawson Milk Company	Cuyahoga Falls, Ohio	273,000	Owned
Beverages and Confections			
Douwe Egberts	Utrecht, The Netherlands	279,000	Owned
Douwe Egberts	Joure, The Netherlands	308,000	Owned
Home Products and Services			
Graber	Montgomery, Pennsylvania	318,000	Owned
Electrolux	Old Greenwich, Connecticut	372,000	Owned
Electrolux	Bristol, Virginia	279,000	Owned
The Fuller Brush Co.	Great Bend, Kansas	437,000	Owned
Intradal, N.V.	St. Truiden, Belgium	299,000	Owned
Apparel and Commercial Products			
Robert Bruce	Philadelphia, Pennsylvania	430,000	Owned

ITEM 4. PARENTS AND SUBSIDIARIES

(a) The Company is the parent company.

Name	State of Incorporation
Consolidated Foods Corporation...........	Maryland

(b) Domestic Subsidiaries (1)

Name	State of Incorporation	Percentage of Voting Securities Owned by Company
Atelier Originals, Inc.	Delaware	100%
Booth Fisheries Company...............	Texas	100%
Bryan Foods, Inc.	Mississippi	100%
Chef Pierre, Inc.	Delaware	100%
Conso Products Company................	Texas	100%
Consolidated Brush Company, Inc.	Connecticut	100%
Consolidated Foods Credit Corporation..	Delaware	100%
Consolidated International Sales Corporation.........................	Delaware	100%
Decker, Ltd., Inc.	Connecticut	100%
Doucon, Inc.	Delaware	100%
The Fuller Brush Company..............	Connecticut	100%
Gant Incorporated.....................	Connecticut	100%
Gusknit Glove Manufacturing Company....	Delaware	100%
Heim Brothers Packing Company..........	Arkansas	100%
The Lawson Milk Company...............	Ohio	100%
LCM, Inc..............................	Ohio	100%
Lyon's Restaurants in Oregon, Inc.	Oregon	100%
Moccomat Beverage Systems, Inc.........	Delaware	65%(4)
Monarch Institutional Foods, Inc.	Pennsylvania	100%
Oxford Security Services, Inc.	Florida	100%
Professional Services, Inc.	North Carolina	100%
Sinton & Brown Company................	Delaware	100%
Tyco Industries, Inc.	Delaware	100%

(c) Foreign Subsidiaries (1)

Name	Place of Incorporation	Percentage of Voting Securities Owned by Company
Aris Gloves, A.G.	St. Gallen, Switzerland	100%
Aris-Isotoner Gloves, Ltd.	Canada	100%(2)
Aris (Philippines) Inc.	Philippines	100%
Booth Fisheries Canadian Company (1978), Ltd.	Canada	100%(2)

Name	Place of Incorporation	Percentage of Voting Securities Owned by Company
Booth Fisheries De Mexico, S.A. de C.V.	Mexico	100%
Booth Nicaragua S.A.	Nicaragua	54%
British Van Wagenberg Limited.........	United Kingdom	100%(3)
Canadelle, Ltee.......................	Canada	100%(2)
Canadian Lady-Canadelle, Inc.	Quebec	100%(2)
Canadian Lady-Canadelle (1978), Inc. .	Canada	100%(2)
CFC Products, Ltd.	Canada	100%(2)
Citaco, N.V...........................	Netherlands	65%(4)
Coenen B.V............................	Netherlands	100%(3)
Conit Enterprise, A.G.................	Switzerland	65%(4)
Conoplex Insurance Company............	Bermuda	100%
Conso of Canada (1978), Ltd.	Canada	100%(2)
Consolidated Foods Corporation of Canada, Ltd.	Canada	100%
Consolidated Foods Overseas Finance N.V.	Netherlands Antilles	100%
Corjan, S.A.	Panama	100%(5)
Covesa, N.V...........................	Belgium	65%(4)
Decem, B.V............................	Netherlands	65%(4)
Decotrade, A.G........................	Switzerland	65%(4)
Defico, N.V...........................	Netherlands Antilles	65%(4)
De Friesche Erven, B.V................	Netherlands	65%(4)
D.E.J. International Research Co., B.V.	Netherlands	32.5%(6)
Douwe Egberts Koninklijke Tabaksfabriek-Koffiebranderijen-Theehandel B.V. ..	Netherlands	65%(7)
Douwe Egberts, A/S....................	Norway	65%(4)
Douwe Egberts France B.V. & Cie.......	France	65%(4)
Douwe Egberts (Ireland) Ltd...........	Ireland	65%(4)
Douwe Egberts Ltd.....................	Canada	65%(4)
Douwe Egberts Koffiebranderijen-Theepakkerijen, B.V................	Netherlands	65%(4)
Douwe Egberts Nederland, B.V..........	Netherlands	65%(4)
Douwe Egberts Professioneel, B.V......	Netherlands	65%(4)
Douwe Egberts Tabaksmaatschappij, B.V.	Netherlands	65%(4)
Douwe Egberts, V.E.G..................	Belgium	65%(4)
Drogerijen Maatschappij, B.V..........	Netherlands	100%(8)
Electrolux of Canada (1978), Ltd.	Canada	100%(2)
Empaque y Congelacion Fronteriozos de Matamorous S.A.	Mexico	100%
Era B.V.	Netherlands	100%(8)
Erdal B.V.	Netherlands	100%(8)
Eri-Vertriebs GMBH....................	Germany	100%(8)
Etablissements Lardenois	France	90%
Ets Euroden...........................	Belgium	100%(9)
Frans Verbunt & Co., B.V..............	Netherlands	65%(4)
Fuller Brush Company, Ltd.	Canada	100%
Fuller Brush Company (1978), Ltd.	Canada	100%(2)
Gebr. Theeuwen Mestfermenteerbedrijf B.V.	Netherlands	100%(3)
Graber Company (1978), Ltd.	Canada	100%(2)
House of Fuller S.A. de C.V.	Mexico	100%(5)
Ice Cream Novelties, Ltd.	Canada	100%(2)

Name	Place of Incorporation	Percentage of Voting Securities Owned by Company
Inmobiliaria Meck-Mex, S.A. de C.V. ..	Mexico	100%(10)
Inmuebles De Campeche S. De R.L.	Mexico	100%
Intradal Belgium, S.A.	Belgium	100%(8)
Intradal N.V.	Netherlands	100%
Intradal France S.A.	France	100%(8)
Intradal Produktie, B.V.	Netherlands	100%(8)
Intradal Produktie Belgium S.A.	Belgium	100%(8)
Itesa, B.V............................	Netherlands	65%(4)
J.A. Verbunt, B.V.....................	Netherlands	65%(4)
Jonker Fris B.V.	Netherlands	100%(3)
Kitchens of Sara Lee (1978), Ltd.	Canada	100%(2)
Kitchens of Sara Lee (Australia) Pty., Ltd.	Australia	100%
Koffiebranderijen Theehandel Kanis & Gunnink, B.V.......................	Netherlands	65%(4)
Marander Assurantie Compagnie, B.V....	Netherlands	65%(4)
Mijnhardt B.V.	Netherlands	100%(8)
Moccomat, A.G.	Switzerland	65%(4)
Moccomat, A/S	Denmark	65%(4)
Moccomat Beverage Systems, Ltd........	Canada	32.5%(6)
Moccomat Caribbean, Ltd...............	Cayman Islands	32.5%(6)
Moccomat France, S.A..................	France	65%(4)
Moccomat International, B.V...........	Netherlands	65%(4)
Mullingar Tobacco Co., Ltd.	Ireland	65%(4)
Nicaraguense Mercantil E. Industrial De Ultramir, S.A.	Nicaragua	100%(11)
Oxford Chemicals Export Corporation (1976) Ltd.	Israel	50%
Oxwall Tool B.V.	Netherlands	100%(8)
Prodenta B.V.	Netherlands	100%(8)
P.T. Prodenta Surabaia................	Indonesia	100%(8)
P.T. Taru Martani Baru................	Indonesia	49%(12)
Panter Sigarenfabrieken H. & J. van Schuppen, B.V.	Netherlands	65%(4)
Sanfax Industries (1978), Ltd.	Canada	100%(2)
Shasta Beverages (1978), Ltd.	Canada	100%(2)
Sigarenfabriek Smit & ten Hove, B.V...	Netherlands	65%(4)
Syladen Vertriebs GMBH................	Germany	100%(9)
Tana B.V.	Netherlands	100%(8)
Tana Company (Canada) Ltd.	Canada	100%(8)
Tana Company U.K. Ltd.	United Kingdom	100%(8)
Tana Maat Ltd.	United Kingdom	100%(8)
Tembakau, B.V.	Netherlands	32.5%(6)
Tyco Canada, Limited..................	Ontario	50%(2)
Tyco (Hong Kong), Ltd.	Hong Kong	100%
Union Francaise de'Industries et des Marques Alimentaires (Ufima), S.A...	France	65%(4)
Valma B.V.	Netherlands	100%(8)
Valdelis B.V.	Netherlands	100%(8)
Val-Mex S.A.	Mexico	100%

Name	Place of Incorporation	Percentage of Voting Securities Owned by Company
Van Wagenberg Groep....................	Netherlands	100%
White Mop Wringer Company of Canada (1978), Ltd.	Canada	100%(2)
The Winnipeg Fish Company, Ltd.	Canada	100%(2)

NOTES:

(1) All Subsidiaries except Consolidated Foods Credit Corporation have been included in the consolidated financial statements of the Company and its subsidiaries as explained in the notes to such consolidated financial statements. Inactive subsidiaries have been omitted. Separate financial statements for Consolidated Foods Credit Corporation have been omitted pursuant to Instruction 5 as to Financial Statements for Form 10-K.

(2) Owned by Consolidated Foods Corporation of Canada Limited

(3) Owned by Van Wagenberg Groep

(4) 100% owned by Douwe Egberts

(5) Owned by The Fuller Brush Company

(6) 50% owned by Douwe Egberts

(7) 26% owned by Doucon, Inc., and 39% owned by a Dutch trust of which Doucon, Inc. is the beneficiary.

(8) Owned by Intradal N.V.

(9) Owned by Etablissements Lardenois

(10) Owned by Corjan, S.A.

(11) Owned by Booth Nicaragua S.A.

(12) 75% owned by Douwe Egberts

ITEM 5. LEGAL PROCEEDINGS

On May 20, 1977, the United States of America filed a civil action in the United States District Court for the Central District of California against the Company asserting the Company's Authentic Furniture Division, since sold, had undervalued imported goods for customs purposes. The government is claiming as damages the forfeiture value of such goods. The Company is contesting the claims. The litigation is in the preliminary stage, and its outcome cannot be reasonably determined at this time.

The Company is also a defendant in several routine civil actions incidental to conducting business in the ordinary course.

In the opinion of Gordon H. Newman, General Counsel, and the management of the Company, the final outcome of the above-described customs claims and civil actions, to the extent adverse to the Company, will not have a material adverse effect on the financial position or the results of operations of the Company.

ITEM 6. INCREASES AND DECREASES IN OUTSTANDING SECURITIES AND INDEBTEDNESS

(a) EQUITY SECURITIES

	Preferred $3.12-1/2 Stated Value	Common $1.33-1/3 Par Value
Shares outstanding July 2, 1977	1,179,736	28,132,006(1)
Shares purchased by the Company(2)		(433,000)
Treasury shares transferred pursuant to the Employee Stock Purchase Plan		194,017
Shares issued pursuant to Stock Option Plans		59,824
Shares issued in conversion of Preferred Stock	(7)	16
Shares issued during the fourth quarter to stockholders of Chef Pierre, Inc. in connection with the acquisition		1,376,802
Treasury Shares transferred in the acquisition of a minority interest in a subsidiary(3)		14,959
Treasury Shares transferred to former Stockholders of previously acquired companies(4)		133
Shares outstanding July 1, 1978	1,179,729	29,344,757(5)

(1) Excludes 163,100 treasury shares held at July 2, 1977.

(2) On June 26, 1975 the Board of Directors authorized the purchase of the Company's common stock on the open market. On May 30, 1978 the Board of Directors authorized the purchase of up to 1,500,000 shares over the next succeeding six months. The shares will be used for corporate purposes such as employee stock purchase and option plans, the conversion of preferred shares and possible future acquisitions.

(3) In the fourth quarter the Company transferred 14,959 shares to the chief executive officer of one of its subsidiaries in return for the 10% minority interest in the subsidiary. The shares were not registered under the Securities Act of 1933 because the transaction did not involve a public offering within the meaning of Section 4(2) of the Securities Act of 1933.

(4) In the fourth quarter the Company transferred 133 shares to former stockholders of Pollution Control Products pursuant to the terms of the contract for the acquisition of Pollution Control Products. A description of the acquisition of Pollution Control Products is contained in the Company's Form 10-K for the year ended June 30, 1973.

(5) Excludes 386,991 treasury shares held at July 1, 1978.

(b) DEBT SECURITIES

On March 30, 1978 the Company issued an 8.65 per cent Promissory Note to the Metropolitan Life Insurance Company, in the principal amount of $100,000,000 payable in installments the last being due April 1, 1998. The issuance of this debt was previously reported in the Company's Form 10-Q for the quarter ended April 1, 1978.

ITEM 7. CHANGES IN SECURITIES AND CHANGES IN SECURITY FOR REGISTERED SECURITIES

None.

ITEM 8. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 9. APPROXIMATE NUMBER OF EQUITY SECURITY HOLDERS

The approximate number of holders of record of each class of equity securities of the Company as of August 8, 1978 is set forth below:

Title of Class	Number of Record Holders
Common stock, $1.33-1/3 par value.....	47,200
$4.50 Cumulative Convertible Preferred Stock, Series A, no par value.........	4,600

ITEM 10. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

ITEM 11. EXECUTIVE OFFICERS OF COMPANY

Name	Age as of October 1, 1978	Offices and Positions Held	First Elected an Officer
John H. Bryan, Jr.	41	Chairman, Chief Executive Officer and Director	3/28/74
John J. Cardwell	47	President and Director	8/ 1/76
Charles A. McKee	60	Executive Vice President and Director	12/22/70
Milton J. Schloss	64	Executive Vice President and Director	10/26/67
Thomas F. Barnum	39	Senior Vice President	7/ 3/78
Allan Elston	48	Senior Vice President	6/30/75
Alan J. Glazer	37	Senior Vice President - Chief Financial Officer	10/30/75
Robert Jaunich, II	38	Senior Vice President	8/14/78
William P. Mahoney	42	Senior Vice President	7/ 3/78
Gordon H. Newman	45	Senior Vice President - Secretary, General Counsel	5/28/70
James T. Pearce	56	Senior Vice President	8/31/78
James B. Prigoff.........	50	Senior Vice President	10/20/75
James P. Schadt	40	Senior Vice President - Corporate Development and International	6/30/77
Dave Center	63	Group Vice President	2/ 8/67
Frank W. Holas	49	Group Vice President	10/31/74
Daniel J. Brennan	48	Vice President - Taxes and Insurance	1/26/78
Frederick W. Brown	57	Vice President - Employee Relations	1/ 1/68

Name	Age as of October 1, 1978	Offices and Positions Held	First Elected an Officer
Norman L. Harritt	37	Vice President - Financial Planning and Control	1/27/77
Robert M. Lynch	44	Vice President - Human Resources	9/29/77
Louis van Wagenberg	64	European Vice President	9/19/62
William T. White, Jr. ...	52	Vice President and Treasurer	6/29/66
John Wolbers	57	European Vice President	8/31/72

Except as herein noted, all of the above named officers were elected or re-elected at the annual meeting of the Board of Directors on October 27, 1977 to serve until the next annual meeting of the Board of Directors or until their respective successors are elected and qualified.

There are no family relationships between any of the executive officers listed above.

Each of the executive officers listed above has served the Company or its subsidiaries in various executive capacities for the past five years, except the following individuals:

Prior to John J. Cardwell's election, he was a director and member of the executive committee of McKinsey & Company, Inc., a management consulting firm.

Prior to Allan Elston's election, he held various executive positions with The Pillsbury Company, the most recent being Vice President - Ventures.

Prior to Alan J. Glazer's election, he was a partner in Arthur Andersen & Co., independent public accountants.

Prior to Robert Jaunich, II's election, he held various executive positions with Memorex Corporation, the most recent being Executive Vice President.

Prior to William P. Mahoney's election he held various executive positions with Kitchens of Sara Lee (U.S.), the most recent being President. Previously he held various executive positions with Motorola, Inc.

Prior to James B. Prigoff's election as a Senior Vice President, he was Group Vice President of the Company's Women's Apparel Group. Previously, he was President of the Sportco Division of US Industries Inc.

Prior to Daniel J. Brennan's election, he was a Vice President of Taxes and Insurance for IU International.

Prior to James P. Schadt's election, he was President and Chief Executive Officer of Monsieur Henri Wines, Ltd., a division of PepsiCo Inc., and prior to that, he was a Senior Vice President of PepsiCo Foods International Division.

Prior to Norman L. Harritt's election, he held various financial management positions with the Rockwell International Corporation, the most recent being Director of Finance and Administration of its Automotive International Group.

Prior to Robert M. Lynch's election, he was the Director of Personnel Administration of PepsiCo, Inc.

The officers and directors of the Company as a group are the beneficial owners of voting securities of Consolidated as set forth below as of August 31, 1978:

Title of Class	Number of Shares Beneficially Owned	Percent of Class
Common......................	1,224,775	4.18%
$4.50 Cumulative Convertible Preferred, Series A	1,900	.16%

ITEM 12. INDEMNIFICATION OF DIRECTORS AND OFFICERS

Reference is made to Item 9 of the Company's Form 10-K for the fiscal year ended July 3, 1976.

ITEM 13. FINANCIAL STATEMENTS, EXHIBITS ON FILE AND REPORT ON FORM 8-K

(a)(1) Financial Statements: See Index To Consolidated Financial Statements on page 21 hereof.

(a)(2) Exhibits:

(aa) Employment Agreement By and Between Charles A. McKee and Consolidated Foods Corporation dated July 1, 1978.

(bb) Deed of Contract between Douwe Egberts Koninklijke Tabaksfabriek-Koffiebranderijen-Theehandel B.V. and Consolidated Foods Corporation dated October 11/14, 1977.

(cc) Articles and Agreement of Merger Between Consolidated Foods Corporation and Chef Pierre, Inc., dated January 30, 1978.

(dd) Agreement for the Sale and Purchase of Certain Assets and Businesses of the Harrison House Division By and Among Super Valu Stores, Inc., Harrison House Realty, Inc., and Consolidated Foods Corporation dated March 1, 1978.

(ee) Agreement for the Sale and Purchase of Certain Assets of S. Vogel Sons, Inc., By and Between S. Vogel Sons, Inc., Mrs. Josephine Vogel Wallack and Consolidated Foods Corporation dated November 11, 1977.

(ff) Agreement for the Sale and Purchase of the Outstanding Capital Stock of Heim Brothers Packing Company By and Between Bryan Foods, Inc., and James E. Lile, William R. Lile, The Lile Family Trust and Transportation Properties, Inc., dated January 14, 1978.

(gg) Agreement for the Sale of the Assets of the Authentic Products Division of Consolidated Foods Corporation By and Between Consolidated Foods Corporation and Authentic Furniture Products, Inc., dated March 13, 1978.

(hh) Asset Purchase Agreement By and Between Consolidated Foods Corporation and Charter Supply Company, Inc., entered into as of April 24, 1978.

(ii) Asset Purchase Agreement By and Between Consolidated Foods Corporation and Chicago Transparent Products, Inc., entered into as of May 8, 1978.

(jj) Asset Purchase Agreement By and Between Consolidated Foods Corporation and Klein Plastic Products, Inc., entered into as of May 24, 1978.

(kk) Asset Purchase Agreement By and Between Consolidated Foods Corporation and Plasti-Kote Company, Inc., entered into as of May 24, 1978.

(ll) Asset Purchase Agreement By and Between Consolidated Foods Corporation and Prager Brush Company, Inc., entered into as of July 6, 1978.

(mm) Asset Purchase Agreement By and Between Consolidated Foods Corporation and Oxwall Tool Company, Inc., entered into as of July 6, 1978.

(nn) Agreement for the Sale and the Purchase of Certain Assets of the South Robeson Knitting Operations of Val D'Or By and Between Consolidated Foods Corporation and Munsingwear, Inc. entered into as of August 22, 1978.

(oo) Agreement for the Sale of Val D'Or Industries, Inc., to Val D'Or Inc., dated September 18, 1978.

(pp) Agreement By and Between Consolidated Foods Corporation, Booth Fisheries Division and H. B. Kennerly, Jr. of H. B. Kennerly & Son, Inc., and its Subsidiary Nanticoke Seafood Co., Inc., dated July 26, 1978.

(qq) Agreement of Merger concerning the proposed merger with Hanes Corporation.

(rr) Stock Purchase Agreement concerning the proposed merger with Hanes Corporation.

(b) Report on Form 8-K:

The Company filed a report on Form 8-K dated March 30, 1978 reporting the issuance of an 8.65 per cent Promissory Note in the amount of $100,000,000 to the Metropolitan Life Insurance Company.

PART II

Items 14 through 18 have been omitted from this report because the Company since the close of its fiscal year ended July 1, 1978, has filed with the Securities and Exchange Commission a definitive proxy statement pursuant to Regulation 14A under the Securities Exchange Act of 1934.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Company has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CONSOLIDATED FOODS CORPORATION

BY

Gordon H. Newman
Senior Vice President and
Secretary

Dated: September 25, 1978

CONSOLIDATED FOODS CORPORATION AND SUBSIDIARIES

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED FINANCIAL STATEMENTS:

The consolidated financial statements included on pages 36 through 45 of the 1978 Annual Report to Stockholders are incorporated by reference in this Form 10-K. With the exception of the information specifically incorporated by reference in this Item and Items 1 and 2, no other data appearing in the 1978 Annual Report to Stockholders is deemed to be filed as part of this Form 10-K.

Individual financial statements of the parent company have been omitted as the parent company is primarily an operating company and the aggregate of the minority interests and long-term debt (not guaranteed by the parent company) of the consolidated subsidiaries do not exceed 5% of total consolidated assets.

ADDITIONAL FINANCIAL DATA:

Schedules not listed have been omitted since the required information is included in the consolidated financial statements or the notes thereto, or is not applicable or required.

AUDITORS' REPORT

To Consolidated Foods Corporation:

We have examined the consolidated balance sheets of CONSOLIDATED FOODS CORPORATION (a Maryland corporation) AND SUBSIDIARIES as of July 1, 1978, and July 2, 1977, and the related consolidated statements of income, stockholders' equity and changes in financial position for the fiscal years then ended, all of which are included in the 1978 Annual Report to Stockholders incorporated in this Form 10-K by reference. We have also examined the supporting Schedules V, VI and XII and the supplemental data to Notes to Financial Statements included in this Form 10-K. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We did not examine the financial statements of Douwe Egberts, B.V., acquired in 1978, which statements reflect total assets and revenues constituting 25% and 11%, respectively, of the related consolidated totals for 1978. These statements were examined by other auditors whose report thereon has been furnished to us and our opinion expressed herein, insofar as it relates to the amounts included for Douwe Egberts, is based solely upon the report of other auditors.

In our opinion, based upon our examination and the report of other auditors in 1978 referred to above, (1) the consolidated balance sheets and the related consolidated statements of income, stockholders' equity and changes in financial position and the supplemental data to Notes to Financial Statements present fairly the financial position of Consolidated Foods Corporation and Subsidiaries as of July 1, 1978 and July 2, 1977, the results of their operations and the changes in their financial position for the fiscal years then ended, and (2) the supporting Schedules present fairly the information required to be set forth therein, all in conformity with generally accepted accounting principles consistently applied during the years.

ARTHUR ANDERSEN & CO.

Chicago, Illinois,
August 21, 1978
(Except for the matter discussed in "Event Subsequent to Year-End" note as to which the date is September 1, 1978).

AUDITORS' REPORT

We have examined the consolidated balance sheet as of June 30, 1978 and the consolidated income statement for the 6 months period ended June 30, 1978 of Douwe Egberts Koninklijke Tabaksfabriek-Koffiebranderijen-Theehandel B.V.

In our opinion, the consolidated balance sheet as of June 30, 1978, and the consolidated income statement for the 6 months period ended June 30, 1978 (not separately presented herein) present fairly the financial position of the Company at June 30, 1978 and the results of its operations for the 6 months period ended June 30, 1978.

Utrecht, August 21, 1978 KLYNVELD KRAAYENHOF & CO.

SUPPLEMENTAL DATA TO NOTES TO FINANCIAL STATEMENTS

Cash, Short-Term Investments and Marketable Securities:

	In Thousands 1978	In Thousands 1977
Cash	$ 13,247	$ 10,531
Time deposits and certificates of deposit	82,930	71,590
Marketable securities, principally commercial paper, at cost which approximates market	15,249	18,933
	$111,426	$101,054

Inventories:

Inventories included in the computation of cost of goods sold were $333,765,000 at July 3, 1976.

Intangible Assets:

	In Thousands 1978	In Thousands 1977
Balance at beginning of year	$ 91,709	$ 94,552
Amortization	(1,272)	(470)
Amount applicable to businesses sold	(13,493)	(3,386)
Amount applicable to businesses purchased	38,782	1,013
Balance at end of year	$115,726	$ 91,709

Short-Term Debt:

Following is a summary of short-term debt activity:

	1978 Thousands of Dollars	1978 Weighted Average Interest Rate	1977 Thousands of Dollars	1977 Weighted Average Interest Rate
Short-Term Debt at Year End -				
Parent	$ 14,989	8.75%	$ --	-- %
Consolidated Foods Credit Corporation	36,915	7.55	35,905	5.44
Average Short-Term Debt During Year -				
Parent	36,110	7.88	--	--
Consolidated Foods Credit Corporation	36,602	6.53	34,865	5.16
Maximum Month-End Short-Term Debt -				
Parent	126,900		--	
Consolidated Foods Credit Corporation	38,735		35,905	

Common Stock:

Under the corporation's qualified and non-qualified stock option plans, executive employees may be granted options to purchase common stock at 100% of the market value at the date of grant. In general, options become exercisable 25% per year in the second through fifth years following grant. Qualified options expire five years from the date of grant; non-qualified options expire ten years from the date of grant.

As of July 1, 1978, 1,623,460 shares of authorized but unissued common stock were reserved under the plans; options had been granted on 1,009,211 of the reserved shares at prices ranging from $4.53 to $29.00 per share. During 1978, options on 45,400 shares were granted at prices ranging from $23.63 to $25.13; options for 59,824 shares were exercised at prices ranging from $4.53 to $24.88, and options for 144,567 shares expired or were cancelled.

During 1977, options on 520,126 shares were granted at prices ranging from $10.34 to $25.69, options for 14,974 shares were exercised at prices ranging from $11.44 to $22.21, and options for 100,968 shares expired or were cancelled.

At July 1, 1978 and July 2, 1977, there were 614,249 and 521,677 shares, respectively, available for granting future options under the plans.

Details regarding shares under option, options which became exercisable and options exercised are as follows (dollars in thousands except per share):

	Number of Shares	Option Price Per Share	Option Price Total	Market Price* Per Share	Market Price* Total
Shares under option at -					
July 2, 1977........	1,168,202	$ 4.53 to $41.32	$25,579	$ 4.53 to $41.32	$25,579
July 1, 1978........	1,009,211	4.53 to 29.00	22,265	4.53 to 29.00	22,265

*Market value determined as of date of grant

	Number of Shares	Option Price Per Share	Option Price Total	Market Price* Per Share	Market Price* Total
Options which became exercisable during year ended in -					
1976..............	236,623	4.53 to 47.57	6,234	15.50 to 22.63	4,542
1977..............	188,686	4.53 to 41.32	3,769	22.50 to 26.13	4,607
1978..............	289,620	4.53 to 29.00	6,301	23.38 to 26.13	7,167

*Market value determined as of date exercisable

	Number of Shares	Option Price Per Share	Option Price Total	Market Price* Per Share	Market Price* Total
Options exercised during year ended in -					
1976..............	6,570	13.13 to 17.57	91	18.38 to 22.50	131
1977..............	14,974	11.44 to 22.21	232	23.13 to 26.50	374
1978..............	59,824	4.53 to 24.88	977	23.25 to 26.13	1,438

*Market value determined as of date exercised

Bonus Plans:

The corporation has key employee bonus plans adopted by most of its operating companies and the executive office of the corporation. Bonuses earned under the above plans are based upon operating results and return on investment subject to certain limitations. Amounts provided and charged to expense under the above plans were $9,839,000 in 1978 and $8,497,000 in 1977.

Supplementary Profit and Loss Information:

	In Thousands 1978	1977
Maintenance and repairs	$47,103	$43,221
Depreciation of property	50,156	42,355
Taxes other than those on income -		
Payroll taxes	53,107	45,053
Real estate and personal property taxes	10,654	10,869
Other taxes	1,953	2,195
Rents	42,500	45,000
Advertising	41,762	33,678
Research and development	9,030	6,943

Event Subsequent to Date of Auditors' Report:

The corporation and Hanes Corporation have reached an agreement in principle for the acquisition of the remaining 79.5% of the outstanding common stock of Hanes for approximately $208.5 million subject to shareholder approval. The agreement contemplates a cash merger pursuant to which Hanes shareholders may elect to receive convertible notes of the corporation in lieu of cash. This transaction is also subject to execution of definitive agreements, appropriate filings with the Securities and Exchange Commission and favorable tax rulings or opinions.

ESTIMATED REPLACEMENT COST INFORMATION (UNAUDITED)

The following replacement cost information is furnished in compliance with the reporting requirements of the Securities and Exchange Commission ("SEC").

Although the information has been developed in good faith and with reasonable care, such information is based on many subjective assumptions, techniques and judgments for which no defined standards presently exist. Accordingly, the estimated data presented are inherently imprecise. Furthermore, the replacement cost information is based on the hypothetical assumption that the company would replace its entire inventory and productive capacity at year-end. However, the information presented should not be interpreted to indicate that the company actually has present plans to replace its productive capacity and inventory immediately, or that actual replacement would, or could, take place in the manner assumed in estimating the information. In the normal course of business, management would determine to expand or replace its productive capacity on an individual basis, as needed, over an extended period of time. Decisions concerning replacement will be made in light of economic, regulatory and competitive conditions existing on the dates such determinations are made and, hence, could differ substantially from the assumptions on which the data included herein are based.

The company further cautions that this information (a) does not consider all of the effects of inflation on the company's results of operations, and accordingly, should not be used in any attempt to impute the effects of inflation on net earnings; (b) may not be indicative of the current values of the respective assets; (c) does not take into consideration the probability of cost reductions resulting from increased productivity which might result from technological improvements and efficiencies; (d) does not recognize the probabilities of price adjustments, and (e) may not be comparable with other companies. The corporation has attempted, over the years, and will continue, to adjust selling prices to maintain margins, competitive conditions permitting.

Subject to the foregoing, the company's estimates of replacement cost data follow (in thousands):

	JULY 1, 1978		JULY 2, 1977	
	ESTIMATED REPLACEMENT COST	COMPARABLE HISTORICAL COST	ESTIMATED REPLACEMENT COST	COMPARABLE HISTORICAL COST
Inventories	$ 504,129	$ 489,895	$ 365,033	$ 355,473
Plant and equipment:				
Buildings & improvements	$ 533,758	$ 282,738	$ 410,216	$ 235,934
Machinery & equipment	731,083	423,657	583,230	362,656
	1,264,841	706,395	993,446	598,590
Less accumulated depreciation	505,483	278,473	443,961	266,274
Net plant and equipment	$ 759,358	$ 427,922	$ 549,485	$ 332,316
	YEAR ENDED JULY 1, 1978		YEAR ENDED JULY 2, 1977	
Cost of sales including depreciation	$2,448,726	$2,397,457	$1,914,171	$1,873,789
Depreciation:				
Included in inventory & cost of sales	$ 53,662	$ 31,413	$ 55,733	$ 34,855
Included in selling, general and administrative expenses	30,185	17,588	11,623	7,114
	$ 83,847	$ 49,001	$ 67,356	$ 41,969

Reconciliations of historical cost amounts reflected in the consolidated financial statements to the reported amounts shown on the prior page are as follows (in thousands):

	1978				
	INVENTORIES	PLANT & EQUIPMENT	ACCUM. DEPR.	COST OF SALES	DEPRECIATION EXPENSE
Totals as shown in the 1978 consolidated financial statements	$507,865	$750,200	$283,700	$2,445,136	$50,156
Add present value of future rental payments for noncapitalized financing leases as determined at the inception of the leases	--	57,717	24,646	--	3,699
Deduct items not requiring replacement costing in compliance with SEC rules -					
Land and construction in progress	--	(55,110)	--	--	--
Operations which are not anticipated to be replaced	(17,970)	(46,412)	(29,873)	(47,679)	(4,854)
Historical amounts for which replacement cost data has been provided	$489,895	$706,395	$278,473	$2,397,457	$49,001

	1977				
Total as shown in the 1977 consolidated financial statements	$379,057	$623,779	$275,844	$1,981,889	$42,355
Add present value of future rental payments for noncapitalized financing leases as determined at the inception of the leases	--	65,297	27,676	--	4,123
Deduct items not requiring replacement costing in compliance with SEC rules -					
Land and construction in progress	--	(26,916)	--	--	--
Operations which are not anticipated to be replaced	(23,584)	(63,570)	(37,246)	(108,100)	(4,509)
Historical amounts for which replacement cost data has been provided	$355,473	$598,590	$266,274	$1,873,789	$41,969

As indicated above, no replacement cost has been provided for operations which are in the process of being sold, nor for assets which, in management's opinion, would not be replaced at the end of their useful lives.

Inasmuch as the corporation accounts for its inventory on a first-in, first-out basis and generally has a high inventory turnover, only minor replacement cost adjustments had to be made to the inventory to reflect current material costs plus the impact of replacement cost depreciation.

Estimated replacement cost of the corporation's major buildings and improvements was calculated by using current estimated construction costs and equivalent floor space. Replacement costs for the remaining buildings and improvements were estimated by application of published construction cost indices to historical cost amounts. In calculating the replacement cost amounts of machinery and equipment a number of methods were used. After giving consideration to significant impacts of technological advancements and management's replacement assumptions, the majority of equipment replacement cost was estimated by application of published cost indices to historical cost amounts. Remaining equipment replacement cost was estimated by utilizing engineering estimates, vendor quotations and recent invoice prices.

Depreciation expense applicable to the average replacement cost of productive capacity was computed on a straight-line basis assuming the estimated property lives used in preparing historical cost financial statements. The relationship of historical plant and equipment cost to accumulated depreciation was the basis for estimating replacement cost accumulated depreciation.

Estimated replacement cost of sales for food companies was calculated by adjusting historical costs for the approximate time lag between incurring inventory costs and their subsequent conversion into sales. Estimated replacement cost of sales for non-food companies was determined by the application of wholesale price indices after giving effect to inventory turnover rates. Both cost of sales calculations reflect depreciation on a replacement cost basis. Estimated replacement cost of sales has not been adjusted to reflect any potential cost savings which could be reasonably anticipated should productive capacity be replaced.

CONSOLIDATED FOODS CORPORATION AND SUBSIDIARIES

SCHEDULE V

PROPERTY

For the Years Ended July 2, 1977, and July 1, 1978

Classification	Balance at Beginning of Year (1)	Company Acquired in Pooling of Interests	Property of Companies Purchased	Additions, at Cost	Retirements or Sales, at Cost, and Other Changes	Balance at End of Year
	In Thousands					
For the Year Ended July 2, 1977:						
Land..........................	$ 14,762	$ 288	$ --	$ 519	$ (1,230)	$ 14,339
Buildings and improvements....	181,155	3,436	2	14,287	(9,145)	189,735
Machinery and equipment.......	379,085	3,649	126	44,636	(20,368)	407,128
Construction in progress......	10,455	3,269	--	3,694(2)	(4,841)	12,577
	$585,457	$10,642	$ 128	$63,136	$ (35,584)	$623,779
For the Year Ended July 1, 1978:						
Land..........................	$ 14,339	$ --	$ 11,041	$ 1,303	$ (652)	$ 26,031
Buildings and improvements....	189,735	--	55,578	19,888	(16,612)	248,589
Machinery and equipment.......	407,128	--	40,844	52,720	(54,191)	446,501
Construction in progress......	12,577		10,662	6,906(2)	(1,066)	29,079
	$623,779	$ --	$ 118,125	$80,817	$ (72,521)	$750,200

Notes:

(1) Balances at the beginning of the year ended July 2, 1977, are as originally reported.

(2) Represents additions net of costs of completed projects which have been reclassified and are included as additions to the other property accounts.

CONSOLIDATED FOODS CORPORATION AND SUBSIDIARIES SCHEDULE VI

ACCUMULATED DEPRECIATION OF PROPERTY

For the Years Ended July 2, 1977, and July 1, 1978

	In Thousands				
Classification	Balance at Beginning of Year (1)	Company Acquired in Pooling of Interests	Provision Charged to Earnings	Retirements, Sales or Other Changes	Balance At End of Year
For the Year Ended July 2, 1977:					
Building and improvements.....	$ 57,850	$ 608	$ 8,292	$ (3,103)	$ 63,647
Machinery and equipment.......	193,397	1,242	34,063	(17,430)	211,272
Provision for estimated loss on disposition(2)......	1,269	--	--	(344)	925
	$252,516	$1,850	$42,355	$(20,877)	$275,844
For the Year Ended July 1, 1978:					
Building and improvements.....	$ 63,647	$ --	$ 9,806	$ (6,604)	$ 66,849
Machinery and equipment.......	211,272	--	40,350	(34,771)	216,851
Provision for estimated loss on disposition(2)......	925	--	--	(925)	--
	$275,844	$ --	$50,156	$(42,300)	$283,700

Notes:

(1) Balances at the beginning of the year ended July 2, 1977, are as originally reported.

(2) Represents part of a provision for the estimated loss on disposition of the corporation's furniture divisions applicable to the investment in property as discussed in the summary of operations included elsewhere in this Form 10-K. See Schedule XII for an analysis of the provision for estimated loss on disposition.

CONSOLIDATED FOODS CORPORATION AND SUBSIDIARIES

SCHEDULE XII

RESERVES

For the Years Ended July 2, 1977, and July 1, 1978

	In Thousands					
	Balance at Beginning of Year (1)	Company Acquired in Pooling of Interests	Provision Charged (Credited) to Earnings	Write-Off of Uncollectible Accounts (3)	Other Additions (Reductions)	Balance at End of Year
For the Year Ended July 2, 1977:						
Allowance for doubtful trade accounts receivable........	$18,180	$123	$ 9,492	$ (8,525)	$ (150)	$19,120
Provision for estimated loss on disposition(2).....	4,254	--	--	--	(344)	3,910
For the Year Ended July 1, 1978:						
Allowance for doubtful trade accounts receivable........	$19,120	$ --	$10,121	$ (8,801)	$ 2,439	$22,879
Provision for estimated loss on disposition(2).....	3,910	--	(1,054)	--	(2,856)	--

Notes:

(1) Balances at the beginning of the year ended July 2, 1977, are as originally reported.
(2) For a discussion of the provision for estimated loss on disposition see Item 2 - Summary of Operations included elsewhere in this Form 10-K. During 1978, the disposition of the furniture divisions was completed.
(3) Net of collections on accounts previously written-off.

NOTICE TO TAXPAYERS OF ADDITIONAL APPROPRIATIONS

Notice is hereby given to the taxpayers of the City of Fort Wayne, Allen County, Indiana, that the Common Council of said Municipality will, at the Council Chambers, City-County Building, Fort Wayne, Indiana, on Tuesday, the 27th day of February, 1979 at 7:30 P.M. o'clock, Eastern Standard Time, consider the following additional appropriations which said Council considers necessary to meet an extraordinary emergency existing at this time.

BILL NO. A-79-02-01

There is hereby transferred from the unappropriated and unencumbered balance of Account No. 03-355-355-4001 "Park Cumulative Building Fund" the sum of $25,000.00 to purchase land for park and recreation purposes.

That the unappropriated and unencumbered balance in Account No. 03-355-355-4001 "Park Cumulative Building Fund" is hereby reduced in the amount of $25,000.00.

It is necessary to appropriate funds to the Park Department for the purchase of land for park and recreation purposes. These funds will be used together with a private donation to purchase open space in a densely populated area, and there are sufficient funds to cover such obligations.

Taxpayers appearing at such meeting shall have a right to be heard thereon. The additional appropriation, as finally made, will be automatically referred to the State Board of Tax Commissioners, which Commission will hold a further hearing within fifteen days at the County Auditor's Office of Allen County, Indiana, or at such other place as may be designated. At such hearing, taxpayers objection to any of such additional appropriations may be heard and interested taxpayers may inquire of the County Auditor when and where such hearing will be held.

Charles W. Westerman

CHARLES W. WESTERMAN
CITY CLERK

EMERGENCY APPROPRIATION ORDINANCE

WHEREAS, certain extraordinary emergencies have developed since the adoption of the existing annual budget, so that it is now necessary to appropriate more money than was appropriated in the annual budget; now therefore, to meet such extraordinary emergencies:

Sec. 1. Be it ordained by the Common Council of the City of Fort Wayne, Allen County, Indiana, that for the expenses of said municipal corporation the following additional sums of money are hereby appropriated and ordered set apart out of the several funds herein named and for the purposes herein specified, subject to the laws governing the same:

	AMOUNT REQUESTED	AMOUNT APPROPRIATED
BILL NO. A-79-02-01 (A-02-79)	$ 25,000.00	$ 25,000.00

There is hereby transferred from the unappropriated and unencumbered balance of Account No. 03-355-355-4001 "Park Cumulative Building Fund" the sum of $25,000.00 to purchase land for park and recreation purposes.

	AMOUNT REQUESTED	AMOUNT APPROPRIATED
BILL NO. A-79-02-01 (A-02-79)	$ 25,000.00	$ 25,000.00

That the unappropriated and unencumbered balance in Account No. 02-355-355-4001 "Park Cumulative Building Fund" is hereby reduced in the amount of $25,000.00.
It is necessary to appropriate funds to the Park Department for the purchase of land for park and recreation purposes. These funds will be used together with a private donation to purchase open space in a densely populated area, and there are sufficient funds to cover such obligations.

ADOPTED THIS 27th DAY OF February, 19~~78~~ 79

AYES		NAYS
Paul M. Burns	PAUL M. BURNS	
William T. Hinga	WILLIAM T. HINGA	
Fredrick R. Hunter	FREDRICK R. HUNTER	
W. C. Moses Jr.	WINFIELD C. MOSES, JR.	
John Nuckols	JOHN NUCKOLS	
Absent	DONALD J. SCHMIDT	
Vivian G. Schmidt	VIVIAN G. SCHMIDT	
James S. Stier	JAMES S. STIER	
Samuel J. Talarico	SAMUEL J. TALARICO	

ATTEST:
Charles W. Westerman
CHARLES W. WESTERMAN
CITY CLERK

AUDITOR'S OFFICE
FILED
MAR 7 1979
Gloria J. Goeglein
AUDITOR OF ALLEN COUNTY

THE CITY OF FORT WAYNE

CITY-COUNTY BUILDING • ONE MAIN STREET • FORT WAYNE, INDIANA 46802

room 122

charles w. westerman, clerk

February 14, 1979

Ms. Virginia Grace
Fort Wayne Newspapers, Inc.
600 West Main Street
Fort Wayne, Indiana 46802

Dear Ms. Grace:

Please give the attached full coverage on the dates of February 17 and February 24, 1979, in both the News Sentinel and Journal Gazette.

RE: Legal Notice for Common Council of Fort Wayne, IN.

Bill No. A-79-02-01
"Park Cumulative Building Fund"
$25,000.00

Please send us six (6) copies of the Publisher's Affidavit from both newspapers.

Thank you.

Sincerely,

Charles W. Westerman

Charles W. Westerman
CityClerk

CWW/ne
ENCL: 1

Form Prescribed by State Board of Accounts

General Form No. 99 P (Rev. 1967)

Common Council of Fort Wayne
(Governmental Unit)

To JOURNAL-GAZETTE Dr.

Allen County, Ind.

FORT WAYNE, INDIANA

PUBLISHER'S CLAIM

LINE COUNT

Display	Matter (Must not exceed two actual lines, neither of which shall total more than four solid lines of the type in which the body of the advertisement is set) – number of equivalent lines	
Head	number of lines	2
Body	number of lines	51
Tail	number of lines	2
	Total number of lines in notice	55

COMPUTION OF CHARGES

55 lines, 1 columns wide equals 55 equivalent lines at .259¢ cents per line — $ 14.25

Additional charge for notices containing rule or tabular work (50 per cent of above amount) —

Charge for extra proofs of publication (50 cents for each proof in excess of two) — 2.00

TOTAL AMOUNT OF CLAIM. — $ 16.25

DATA FOR COMPUTING COST

Width of single column 9.9 ems

Size of type 5½ point

Number of insertions 2

Size of quad upon which type is cast 5½

Pursuant to the provision and penalties of Ch. 89., Acts 1967.

I hereby certify that the foregoing account is just and correct, that the amount claimed is legally due, after allowing all just credits, and that no part of the same

Arvilla DeWald

9 79

Title CLERK

NOTICE TO TAXPAYERS OF ADDITIONAL APPROPRIATIONS

Notica is hereby given to the taxpayers of the City of Fort Wayne, Allen County, Indiana, that the Common Council of said Municipality will, at the Council Chambers, City-County Building, Fort Wayne, Indiana, on Tuesday, the 27th day of February, 1979 at 7:30 P.M. o'clock, Eastern Standard Time, consider the following additional appropriations which said Council considers necessary to meet an extraordinary emergency existing at this tima.

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That the unappropriated and unencumbered balance in Account No. 03-355-355-4001 "Park Cumulative Building Fund" is hereby reduced in the amount of $25,000.00

It is necessary to appropriate funds to the Park Department for the purchase of land for park and recreation purchases These funds will be used together with a private donation to purchase open space in a densely populated area, and there are sufficient funds to cover such obligations.

Taxpayers appearing at such meeting shall a right to be heard thereon. The additional appropriation, as finally made, will be automatically referred to the State Board of Tax Commissioners, which Commission will hold a further hearing within fifteen days at the County Auditor's Office of Allen County, Indiana, or at such other placa as may be designated. At such hearing, taxpayers objection to any of such additional appropriations may be heard and interested taxpayers may inquire of the County Auditor when and where such hearing will be held.

CHARLES W. WESTERMAN
City Clerk

2/17-24

COPY OF
MENT HERE

PUBLISHER'S AFFIDAVIT

State of Indiana
ALLEN County SS:

Personally appeared before me, a notary public in and for said county and state, the undersigned ARVILLA DEWALD who, being duly sworn, says that she is CLERK of the JOURNAL-GAZETTE a DAILY newspaper of general circulation printed and published in the English language in the city / town of FORT WAYNE, INDIANA in state and county aforesaid, and that the printed matter attached hereto is a true copy, which was duly published in said paper for two times, the dates of publication being as follows:

2/17-24/79

Arvilla DeWald

Subscribed and sworn to before me this 24th day of Feb. 19 79

Harry V. [illegible]
Notary Public

SEP 28 1979

My commission expires

Form Prescribed by State Board of Accounts

General Form No. 99 P (Rev. 1967)

Common Council of Fort Wayne
(Governmental Unit)

To JOURNAL-GAZETTE Dr.

Allen County, Ind.

FORT WAYNE, INDIANA

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TOTAL AMOUNT OF CLAIM. $ 16.25

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Number of insertions 2

Size of quad upon which type is cast 5½

Pursuant to the provision and penalties of Ch. 89., Acts 1967.

I hereby certify that the foregoing account is just and correct, that the amount claimed is legally due, after allowing all just credits, and that no part of the same has been paid.

Arvilla DeWald

Date Feb. 24, 19 79

Title CLERK

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ALLEN County SS:

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Harry V. [illegible]
Notary Public

My commission expires

SEP 28 1979

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03-355-355-4001 Park Cumulative Building Fund" is hereby reduced in the amount of $25,000.00

It is necessary to appropriate funds to the Park Department for the purchase of land for park and recreation purchases. These funds will be used together with a private donation to purchase open space in a densely populated area, and there are sufficient funds to cover such obligations.

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CHARLES W. WESTERMAN
City Clerk

2/17-24

Form Prescribed by State Board of Accounts

General Form No. 99 P(Rev. 1967)

Common Council of Fort Wayne
(Governmental Unit)

To NEWS-SENTINEL Dr.

Allen County, Ind.

FORT WAYNE, INDIANA

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V. E. Gerken

19 79

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City Clerk

2/17-24

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ALLEN County SS:

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2/17-24/79

V. E. Gerken

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Harry V. [illegible]
Notary Public

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General Form No. 99 P(Rev. 1967)

Common Council of Fort Wayne
(Governmental Unit)

Allen County, Ind.

To NEWS-SENTINEL Dr.

FORT WAYNE, INDIANA

PUBLISHER'S CLAIM

LINE COUNT

Display	Matter (Must not exceed two actual lines, neither of which shall total more than four solid lines of the type in which the body of the advertisement is set) – number of equivalent lines	
Head	number of lines	2
Body	number of lines	51
Tail	number of lines	2
	Total number of lines in notice	55

COMPUTION OF CHARGES

55 lines, 1 columns wide equals 55 equivalent lines at .2 59¢ cents per line	$ 14.25
Additional charge for notices containing rule or tabular work (50 per cent of above amount)	
Charge for extra proofs of publication (50 cents for each proof in excess of two)	2.00
TOTAL AMOUNT OF CLAIM.	$ 16.25

DATA FOR COMPUTING COST

Width of single column 9.9 ems

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Pursuant to the provision and penalties of Ch. 89., Acts 1967.

I hereby certify that the foregoing account is just and correct, that the amount claimed is legally due, after allowing all just credits, and that no part of the same has been paid.

V. E. Gerken

Date Feb. 24, 19 79

Title CLERK

510 Metro Bldg.
A Licensed Employment Agency
EXPERIENCED MACHINIST — Or
Metal Fabricator. Excellent opportunity with growing business. Bush Machine, Inc., Edon, Ohio 43518. Phone 419-272-2621.

There is hereby transferred from the unappropriated and unencumbered balance of Account No. 03-355-355-4001 "Park Cumulative Building Fund" the sum of $25,000.00 to purchase land for park and recreation purposes.

That the unappropriated and unencumbered balance in Account No. 03-355-355-4001 "Park Cumulative Building Fund" is hereby reduced in the amount of $25,000.00

It is necessary to appropriate funds to the Park Department for the purchase of land for park and recreation purchases. These funds will be used together with a private donation to purchase open space in a densely populated area, and there are sufficient funds to cover such obligations.

Taxpayers appearing at such meeting shall a right to be heard thereon. The additional appropriation, as finally made, will be automatically referred to the State Board of Tax Commissioners, which Commission will hold a further hearing within fifteen days at the County Auditor's Office of Allen County, Indiana, or at such other place as may be designated. At such hearing, taxpayers objection to any of such additional appropriations may be heard and interested taxpayers may inquire of the County Auditor when and where such hearing will be held.

CHARLES W. WESTERMAN
City Clerk

2/17-24

COPY OF
[...]MENT HERE

PUBLISHER'S AFFIDAVIT

State of Indiana
ALLEN County SS:

Personally appeared before me, a notary public in and for said county and state, the undersigned V. E. GERKEN who, being duly sworn, says that she is CLERK of the NEWS-SENTINEL a DAILY newspaper of general circulation printed and published in the English language in the city/town of FORT WAYNE, INDIANA in state and county aforesaid, and that the printed matter attached hereto is a true copy, which was duly published in said paper for two times, the dates of publication being as follows:

2/17-24/79

V. E. Gerken

Subscribed and sworn to before me this 24th day of Feb. 19 79

Harry V. Owen
Notary Public

My commission expires September 28, 1979

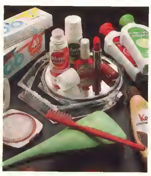
PYA/Monarch

Shasta Beverages

Douwe Egberts

Electrolux

Consolidated Foods Corporation 1978 Annual Report



Diversified Products

Kitchens of Sara Lee

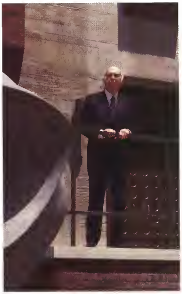
Specialty Meats

Grocery and Confections

Apparel and Home Furnishings

Lawson's

Founder and Honorary Chairman Nathan Cummings stands on the plaza of the Cummings Life Science Center on the University of Chicago campus. Significant research advancements have been made since the Center opened in 1973. In the foreground is a sculpture created by Antoine Poncet, one of many art objects donated or loaned by Mr. Cummings to colleges, universities and art museums.



Contents

About the Cover

The 10 core positions—large and essentially self-contained operating entities—which make up Consolidated Foods are depicted on the cover of the 1978 annual report.

Annual Meeting

Consolidated Foods Corporation will hold its 1978 annual meeting of shareholders at 10:00 a.m., local time, on Thursday, October 26, 1978. The meeting will be in The First Chicago Center, One First National Plaza, at the corner of Dearborn and Monroe Streets, Chicago, Ill.

Consolidated Foods Corporation is a multi-billion dollar, international company. Headquartered in Chicago, it serves growing markets through an array of well-known consumer goods and services. The corporation is organized around 10 major core positions in three principal business groups—Consumer Packaged Goods; Retail and Food Service; and, Electrolux and Diversified Products.

Financial Highlights:

(in thousands except per share data)

		1978	1977	% Change
For the Year:	Net Sales	**$3,535,567**	$2,932,829	21%
	Net Income	**100,633**	90,483	11
	Net Income Per Common Share[1]	**3.21**	2.87	12
	Dividends Per Share of Common Stock	**1.475**	1.3875	6
	Capital Expenditures	**80,817**	63,136	28
	Depreciation	**50,156**	42,355	18
At Year-End:	Cash, Short-Term Investments and Marketable Securities	**$ 111,426**	$ 101,054	10%
	Working Capital	**489,962**	427,005	15
	Long-Term Debt	**261,852**	164,767	59
	Stockholders' Equity	**727,113**	679,647	7
	Return on Average Stockholders' Equity	**14.3%**	13.8%	

[1]Before assumed conversion of preferred stock

To Our Shareholders

We are pleased to report that 1978 was a year of record performance. Sales, earnings, earnings per share and dividend payments all were at record levels. Additionally, important new positions were established by the acquisition of two major food companies, and corporate management was further strengthened both through internal promotion and outside recruitment.

Financial Performance
Sales and earnings established records in each quarter, with the fourth quarter being the best period in the corporation's history. Sales for the quarter reached $1.05 billion and primary earnings were 99 cents per share.

For the fiscal year, sales were $3.54 billion, a 21% advance over the previous year. Earnings increased to $100.6 million, an 11% improvement. Primary earnings per share were $3.21, up 12% from the prior year. Nearly all divisions contributed to these excellent results.

Our balance sheet maintained its strong position throughout the year. Cash, short-term investments and marketable securities were more than $111 million at year-end. Long-term debt rose to $262 million as a result of a $100 million long-term loan financed in March. Long-term debt is approximately 26% of total capital. The corporation retains its excellent rating by both major bond rating agencies.

Dividend Declared
The 131st consecutive quarterly dividend was declared by the board of directors payable October 1, 1978, our 33rd consecutive year of dividend payments. The dividend is currently $1.50 per year, also a record.

Acquisition Actions
We welcomed two major companies to the corporation during the year. In January, Consolidated Foods acquired 65% of the outstanding stock of Douwe Egberts, B.V., an international producer of coffee, tea and tobacco products. In May, we acquired Chef Pierre, Inc., a producer of frozen pies and other baked goods. We look forward to growing contributions from both of these fine companies. Other acquisitions made during the year are described in the pages following this letter under the heading "Goals and Strategies: An Update."

Management Changes
Management was further strengthened during the year. Three members of the management team were promoted to senior vice president: Gordon H. Newman, the corporation's general counsel; Thomas F. Barnum, president of the Kitchens of Sara Lee-Worldwide; and William P. Mahoney, formerly president of the Kitchens of Sara Lee-U.S., who now manages the Grocery and Confections Group.

In addition, one senior vice president and two vice presidents joined Consolidated Foods. Robert Jaunich II, who was elected senior vice president and president of the Shasta Beverages division, joined the corporation after the close of the fiscal year. Robert M. Lynch became vice president of human resources and Daniel J. Brennan was named vice president of taxes and insurance.

New Director
Hugh Krayenhoff was elected to the board of directors in June. He is vice chairman of Akzo, N.V., a major international chemicals and fibers company headquartered in the Netherlands.

Balance of Report
In the pages immediately following this letter, we provide a detailed profile of our recent performance together with an update of the corporation's goals and strategies. We believe you will be pleased with the corporation's achievements to date, and with its opportunities for further profitable growth.

Finally, we wish to thank our employees whose diligent work contributed to this year's record performance, our customers worldwide for their loyalty and our stockholders for their continuing confidence. With the support and endorsement of each of you, and given a relatively stable economy, we look forward to continued growth and another year of record performance in 1979.

Sincerely,

John H. Bryan, Jr.

John H. Bryan, Jr.
Chairman and Chief Executive Officer

John J. Cardwell

John J. Cardwell
President

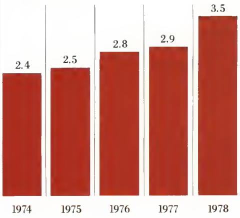
September 8, 1978

A Profile of Performance

The charts and accompanying text on these two pages highlight key financial measures and performance trends for the last five years. They illustrate the substantial recovery that has been accomplished by Consolidated Foods since the downturn in 1975.

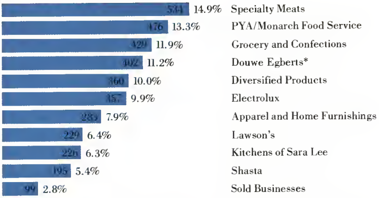
In the immediately following section, under the heading "Goals and Strategies: An Update," we spell out the philosophies and management initiatives put in place by Consolidated Foods since 1975. We encourage you to carefully review both the data and the management strategies being followed by your corporation.

Net Sales
(in billions of dollars)



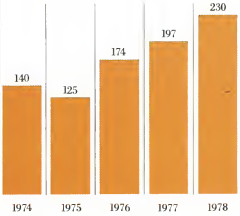
Net sales increased 20.6% in 1978 and 10.8% annually since 1974.

1978 Sales by Core Position
(in millions of dollars)



*Six months only

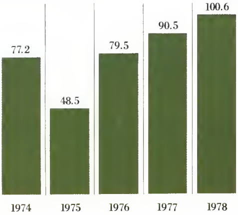
Operating Income of Core Positions*
(in millions of dollars)



After adjusting for businesses sold, operating income from the current portfolio increased 16.7% in 1978.

*Before unallocated corporate expenses and interest

Net Income from Continuing Operations
(in millions of dollars)



Net income from continuing operations was a record $100.6 million, up 11.2% in 1978.

Earnings Per Share*

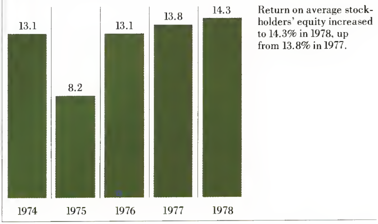
(in dollars)

Earnings per share were a record $3.21, up 11.8% in 1978.

*From continuing operations

Return on Average Stockholders' Equity

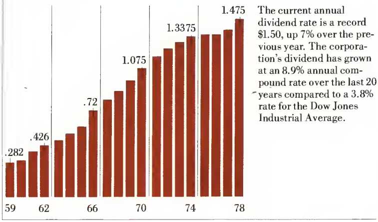
(in percent)



Return on average stockholders' equity increased to 14.3% in 1978, up from 13.8% in 1977.

Dividends Per Common Share

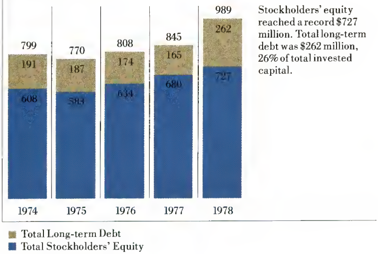
(in dollars)



The current annual dividend rate is a record $1.50, up 7% over the previous year. The corporation's dividend has grown at an 8.9% annual compound rate over the last 20 years compared to a 3.8% rate for the Dow Jones Industrial Average.

Invested Capital

(in millions of dollars)



Stockholders' equity reached a record $727 million. Total long-term debt was $262 million, 26% of total invested capital.

Goals and Strategies: An Update

The charts on the preceding two pages demonstrate that Consolidated Foods has returned to the strong financial performance which typified the company for most of its history. Indeed, the corporation has achieved or, in some cases, is well on its way to achieving performance in line with our long-term goals. These goals importantly include:

Earnings per share
The corporation intends to strive for above average increases in earnings per share and for consistency and predictability in those increases—traits that have not always characterized past performance. Earnings per share, since restoration to a "normal" level in 1976, grew at an average annual compound rate of 12.6% to a record level of $3.21 this year.

Return on average stockholders' equity
It is our firm commitment to achieve a maximum return on our stockholders' investment consistent with sound business practices and prudent debt policies. Our return on equity increased each year since restoration to an acceptable level in 1976, and reached 14.3% in 1978.

As previously reported to you, the corporation decided two years ago to base its strategies on relatively few, well-defined positions; building on existing strengths rather than reaching further afield. We said in the 1976 annual report that "*The Consolidated Foods of the future will be built upon core companies...*" and that "*The achievement of growth through internal sources will be our primary thrust.*" The strategies developed then, together with many refinements and extensions, are still being followed. They are largely responsible for the corporation's creditable financial performance these last several years. Describing the exciting opportunities that arise from them is a principal purpose of this year's annual report.

Before discussing the individual opportunities for internal growth at our core units and the strategies they employ, it is first necessary to describe important divestment and acquisition activities.

Divestment
Beginning shortly after the 1976 annual report was issued, the corporation began to divest positions that did not meet our strategic concept of the company. They failed to meet strictly enforced criteria of size, return on investment or business "fit." In all, 40 companies have been sold. In their last full year with the corporation, the aggregate sales and operating earnings of these companies totaled approximately $280 million and $13 million, respectively. These divestments had no material impact on our balance sheet as we received approximately book value on disposition. The earnings lost were replaced by the strong growth from our continuing units, plus several acquisitions.

While there are a few remaining units to be divested, our heavy emphasis on these activities is nearing completion. For all practical purposes, this aspect of the corporation's redirection has ended.

Acquisitions
Again in the 1976 annual report, we announced that "*Consolidated Foods will ... seek integrating acquisitions which contribute directly and immediately to our major product lines through strong similarities of product design, manufacturing technology or distribution channels.... Furthermore, on a highly discriminating basis, we intend to seek acquisitions which will permit us to establish an immediate market position in previously identified industries...*"

In line with this policy, the corporation made several integrating acquisitions in 1978. Harrison House and S. Vogel Sons, Inc., were added to the food service distribution network which immediately broadened its geographic coverage. The product and distribution capacities of the Specialty Meats Group were bolstered with the purchase of Cooks Processed Foods, Inc., in Los Angeles and Heim Brothers Packing Company of Little Rock, Ark.

More importantly, the corporation added two major positions during the year. In January, we consummated our 65% investment in Douwe Egberts, a major coffee, tea, and specialty tobacco company headquartered in the Netherlands. All three product areas serve growth markets in the Benelux countries and Douwe Egberts holds leading market positions.

In the United States, the acquisition of Chef Pierre, Inc., provided entry into another segment of the rapidly-growing frozen food industry: frozen pies for institutional food service.

We will continue to be interested in integrating acquisitions and, on a highly selective basis, in establishing additional core positions as attractive opportunities arise.

Internal Growth

Divestment and acquisition will continue to play a role in the corporation's development. However, our major emphasis has been and will remain on profitable internal growth from existing strong operations.

Consolidated Foods has sought to develop positions that meet most or all of the following criteria:

- A growing market, preferably in a high, value-added, specialty-branded consumer item;
- An industry where Consolidated Foods is the market leader, or is one of a few leaders; and
- A product with competitive advantages because of technological superiority, strong distribution capabilities, significant cost advantages or other factors within our control.

As will become evident in reading the Operating Review section, most of our core positions happily fit these criteria.

Each core unit has sought to develop those unique strategies that capitalize on the unit's strengths in responding to its available opportunities. In some cases, it first required that additional investment be committed for defensive purposes. For example, Shasta moved into returnable bottles in several of its key Western markets, and Lawson's withdrew from a number of older units that were not performing at acceptable levels. In other cases, it required changes in senior management. In addition to a number of internal promotions, more than 20 individuals have been brought into the corporation at the unit officer level or above during the last two years.

Essentially, these repositioning moves have now been completed and, as will be described subsequently, more aggressive strategies have been put into place at most of our core units. These strategies include new product introductions, like Sara Lee's two new lines of Light 'n Luscious dessert products, or geographic expansion, such as the Speciality Meats Group's national introduction of its Hillshire Farm sausage. Lawson's, after a year of closing poor performing stores, is again adding stores rapidly in its heartland markets. The following discussion of core businesses provides a broader perspective of the opportunities that exist for our companies. We hope you will agree that the prospects for continuing profitable growth are real and that they are soundly based on superior products, well-positioned in attractive markets.

* * *

Sales and operating profits by each of our five traditional industry segments are shown in the Financial Section of this report. In order to provide a managerial perspective in addition to a purely financial one, the following Operating Review section is organized as the corporation is organized—around 10 major core units in three principal business groups:

Consumer Packaged Goods

1978 Sales	$2,069 million
Annual percent increase 74-78	15%
1978 Operating Profits	$126.8 million
Annual percent increase 74-78	14%

Douwe Egberts
Kitchens of Sara Lee
Specialty Meats
Grocery and Confections
Shasta
Apparel and Home Furnishings

Retail and Food Service

1978 Sales	$705 million
Annual percent increase 74-78	14.8%
1978 Operating Profits	$23.6 million
Annual percent increase 74-78	6.6%

PYA/Monarch Food Service
Lawson's

Electrolux and Diversified Products

1978 Sales	$717 million
Annual percent increase 74-78	9.9%
1978 Operating Profits	$79.9 million
Annual percent increase 74-78	14.1%

Electrolux
Diversified Products

Douwe Egberts

In January 1978, Consolidated Foods acquired 65% of the outstanding shares of Douwe Egberts, B.V. Headquartered in the Netherlands, Douwe Egberts is a leading international producer of coffee, tea and tobacco products.

For the third and fourth quarters of fiscal 1978—the initial six-month period of association with Consolidated Foods—Douwe Egberts had sales of $402 million, up 22% from the same six-month period a year ago. Calendar 1978 earnings have returned to normal levels, following disruptions in the world coffee market in 1977. The strong results also reflect the sharp depreciation of the U.S. dollar versus the Dutch guilder.

For calendar 1977, Douwe Egberts had sales of $705 million. Calendar 1977 earnings, however, were adversely impacted by soaring coffee prices and a resultant hoarding and drop in consumer purchases thereafter.

Since January 1978, however, Douwe Egberts' brands, which have maintained their leadership positions, have regained their normal levels of profitability. Most importantly, per-capita coffee consumption is returning to normal levels and the historic 2-3% annual growth rate is expected to resume.

Coffee is Douwe Egberts' principal business, representing 76% of its sales. The company is ranked among the four largest coffee roasters in the world. Douwe Egberts' major market is in the Netherlands where it commands an important share. The company also has strong and growing positions in Belgium and France.

Future growth is anticipated from increased market penetration, new product introduction and continued geographic expansion.

A particularly fast-growing segment of Douwe Egberts is Moccomat International. The Moccomat coffee concentrate system offers food service outlets excellent tasting coffee in less time, with less waste and pilferage problems than conventional systems.

Moccomat consists of two key elements, a specially brewed, frozen concentrate and a solid-state dispensing machine that mixes precise amounts of hot water with the concentrate to produce up to 4,000 cups of coffee per hour. Recently introduced in the United States, the division anticipates good acceptance by a significant number of U.S. food service operations.

Douwe Egberts' Pickwick Tea maintained its significant market share in Holland. The company's Amphora® pipe tobacco and roll-your-own tobaccos achieved record sales levels for the year.

Douwe Egberts' major strengths include bold and innovative marketing techniques combined with a heavy commitment to research and development. Consolidated Foods is proud of its association with Douwe Egberts and looks forward to working together for both companies' mutual benefit in the years ahead.

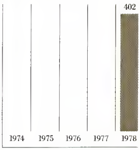
Netherlands-headquartered Douwe Egberts is a premier European packaged-goods consumer product company with leading brand names in coffee, tea and tobacco products.

Douwe Egberts' Moccomat system offers U.S. food service operators excellent coffee with less waste.

Amphora® pipe tobacco is a popular, well-recognized brand throughout the world.

(at right)
Since the days of the great clipper ships, Douwe Egberts has supplied Europe with fine coffees and teas.

Sales*
(in millions of dollars)



*Acquired January 1978; six months only.


BONEN
Douwe Egberts
Fijne Aroma-Koffie
Koffiebranderijen
D·E
ROOD·MERK
koffie bonen
VERS GEBRAND
DOUWE EGBERTS
JOURE / UTRECHT ANNO 1753
PICKWICK THEE
Tijdelijk met DUBBELE waarde punten!
melange
voor 4 koppen thee
PICKWICK THEE
PICKWICK THEE

Kitchens of Sara Lee

The Kitchens of Sara Lee established records again in 1978. Sales increased 17.9% to $226 million. Operating earnings also moved up strongly to record levels.

All segments of Sara Lee's business showed improvement. At retail, new products added to the vitality of the broad line which now includes more than 70 different products. The introduction of single layer dessert cakes under the Original Butter Recipe name generated excellent initial sales. Available in three flavors—Apple Walnut, Coconut and Carrot—the products are now in national distribution.

Early in the year, Sara Lee began selling on a national basis its Light 'n Luscious line of no-cholesterol, low-calorie, single layer cakes. Light 'n Luscious is an entire new product line that is being advertised and packaged separately and opens a major new market for the company. Most importantly, consumers recognize it as a separate product and are not switching from other popular Sara Lee desserts for the new brand.

This spring, Light 'n Luscious Yogurt Chiffons were introduced. Consisting of a graham cracker crust with a whipped yogurt filling, Yogurt Chiffon is available with blueberry, cherry and strawberry toppings. Each serving contains only 120 calories. Flavor-discerning but calorie-conscious Americans are responding quite favorably to the new line.

Sara Lee's food service business continued to increase rapidly. New products were led by Old Fashioned Cream Cheese Cake (New York Style), the rich, heavy-textured cheese cake popularized on the East Coast, and by individually-wrapped Danish. Four new flavors of butter cream layer cakes increased the company's food service line to more than 50 different products to serve this growing market.

Sara Lee's food service sales are projected to improve through further market penetration and an ever-expanding line of quality products for all types of operations serving food away from home.

The company's international operations had excellent growth for the year. Sara Lee-Australia maintained its dominant market position and increased sales in both the retail and food service segments. A joint venture is making headway in developing the Japanese market.

In the United Kingdom, Sara Lee completed its first full year of operations with encouraging results. Market tests are being conducted in two other European markets to determine possible expansion opportunities.

In Canada, sales and earnings increased steadily, paced by several successful, new product introductions.

In each international market, products are tailored to meet the unique tastes and needs of consumers. But in every instance, Sara Lee's reputation for quality remains constant.

Both domestically and internationally, the future looks bright for continued profitable growth at Sara Lee.

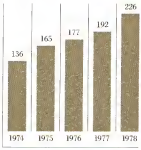
The Kitchens of Sara Lee pioneered the quality frozen bakery field with its world-renowned cheese cake and continues to be the industry leader in production of frozen baked goods for retail and food service customers.

New flavors of Original Butter Recipe cakes were introduced in 1978.

Sara Lee tailors its fine products for each international market.

(at right)
The traditional pound cake, the walnut layer cake and the new strawberry Yogurt Chiffon typify the quality frozen desserts produced by Kitchens of Sara Lee.

Sales
(in millions of dollars)



Specialty Meats

The Specialty Meats Group again set records in sales and operating earnings. Sales advanced 16.2% to $534 million and operating earnings also increased to record levels.

Processed meats continue to be the principal source of earnings and sales growth for the group. Hillshire Farm, Rudy's Farm and Kahn's recorded increased processed meat tonnages for the year.

Hillshire Farm carried on its remarkable growth record. Located in rural Wisconsin, the company produces high-quality, "Old World," natural-casing sausage products such as Polska Kielbasa. Tonnage has increased dramatically during the past five years and sales reached nearly $135 million in 1978.

Despite its steady growth, Hillshire Farm maintains its small company outlook for manufacturing and quality. However, it has become one of the nation's leading sausage marketers and recently became the first to advertise a smoked sausage on national television. Additional growth is anticipated from further national distribution gains, plus geographic expansion of other Hillshire Farm products.

Rudy's Farm, a manufacturer of whole-hog country sausage, also experienced strong tonnage improvements in the year. Growth came from continued expansion in its strong food service market and major advancements in the retail market area with its links, patties, rolls, and sausage and biscuit products. Distribution gains outside the company's Nashville headquarters market should fuel future sales and earnings increases.

Kahn's maintained its impressive growth record through continued market penetration and successful introduction of a number of new products such as No Sugar Bacon and E Z Fixin' Ham. These new entries, coupled with Kahn's aggressive marketing of existing products and geographic expansion, indicate continuing progress in future years.

Kahn's is planning a marked increase in its research capabilities and is adding technical staff to develop new products, packaging and manufacturing equipment. In addition, the division developed a new employee participation approach to problem solving. The program, initiated in 1977, has made tremendous strides in significantly adding to internal earnings improvement.

Although it suffered a two-month strike, Bryan Foods had an excellent year. Processed meat products, such as Bryan's Juicy Jumbos, Beef Jumbos and Hot Dinner Franks, were extremely well received by consumers and the new line of shelf-stable steam tray products for the food service industry is building momentum.

Two acquisitions further strengthened the Specialty Meats Group. Cooks Processed Foods, Inc., Los Angeles, which produces corned beef, pastrami and related products, gives the group a foothold on the West Coast. Heim Brothers Packing Company, a meat processor in Little Rock, Ark., adds new capacity to assist in geographic expansion.

Overall, the Specialty Meats Group, with its emphasis on high-quality processed meat products, is well-positioned to improve its market penetration in the years ahead through geographic expansion and new product introduction.

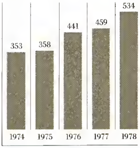
A closely-knit group of companies that manufacture value-added, processed meat products including wieners, sausages, hams and luncheon meats form the Specialty Meats Group.

The horse-drawn farm wagon is the symbol of country quality in Hillshire Farm's national advertising campaign.

Bryan Foods has introduced a new line of food service steam tray entrees.

(at right)
The Specialty Meats Group produces high-quality, value-added meat products for consumer and food service markets.

Sales
(in millions of dollars)




Bryan
Ham
WITH NATURAL JUICES
DIGESTIBLE • FULLY COOKED
WIENERS
Kahn's
NET WT. 16 OZ (1 LB)
KAHN'S, CINCINNATI, OHIO 45225
WIENERS
hillshire Farm
KEEP REFRIGERATED
PRE-COOKED
SMOKED SAUSAGE
RUDY'S FARM

Grocery and Confections

Grocery and Confections Group sales increased 7.1% to a record $429 million. Operating earnings were excellent though below the level reached when sugar prices and the Union Sugar division's earnings were at historic highs.

The group was strengthened by the acquisition in May of Chef Pierre, Inc., a maker of frozen fruit pies and other specialty pie, cake and bakery items principally for the institutional food service market.

Headquartered in Traverse City, Mich., the company enjoys an excellent product reputation which is reflected in its exceptional internal growth record. From calendar 1972 to 1977, sales increased 26% annually from $15.5 million to $49.1 million. After-tax income increased 33% annually to $2.9 million during the same period.

Continued expansion in the food service market and vigorous development of the retail market provide exciting opportunities to extend historic growth records in the years ahead. In addition, new products, such as frozen, fully baked pie slices and hearth-baked natural breads and rolls, offer excellent growth potential. A new plant in Forest, Miss., will open in 1979 to provide additional manufacturing capabilities to support broader geographic expansion.

Other Grocery and Confections Group divisions also introduced a variety of new products during the year. Popsicle began testing a yogurt-based confection in selected markets this past summer. Called Yosicle, it is a low-calorie, high-protein treat offered in five flavors. Popsicle also expects to receive U.S.D.A. approval of its Fruiti-Frost® line, frozen confections made primarily from fruit juice concentrate and applesauce, for use in the nation's Type A school lunch program. This product category opens significant food service potential to Popsicle.

Idaho Frozen Foods increased capacity by approximately 15% with the addition of two new production lines for manufacture of high value-added hash browns, specialty products and institutional french fries. The new manufacturing capacity permits greater utilization of the whole potato so that margins should improve.

Booth Fisheries continues to increase sales and market penetration of value-added products such as its top of the line batter fillets. The batter line has been expanded so that it now includes fillets, fish fingers, shrimp and scallops. Fish enjoys growing popularity due to its ease of preparation, price value in relationship to fresh meats, favorable health characteristics and improved product forms. With both its retail and food service markets increasing rapidly, Booth expects continued success with its expanding line of processed products.

Unit volume at Hollywood Brands declined somewhat due to the impact of continued increases in candy industry pricing. Recent consumer research indicates that Hollywood's Pay Day® candy bar remains one of the most highly recognizable brands in the United States.

Bloch & Guggenheimer, the East Coast pickle processor, introduced a high quality line of herring under the Manischewitz® label. Jonker Fris, the Dutch fruit and vegetable canner, added a line of mushrooms. Both companies expect to continue recording strong performances.

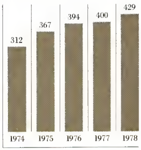
The Grocery and Confections Group markets products through supermarkets and to the food service industry. They include such well-known brands as Booth, Popsicle, Pay Day, and the newly acquired line of frozen pies of Chef Pierre.

Chef Pierre's frozen Hi-Pie is a recognized favorite in grocery frozen food cases.

Popsicle is testing a new flavored frozen yogurt confection line under the Yosicle name.

(at right)
The Grocery and Confections Group provides a wide array of retail and food service products for markets around the world.

Sales
(in millions of dollars)




PAYDAY
SALTED NUT BAR
Hollywood
TRI-PATTIE POTATOES
RusEttes
PRESS TO OPEN
Popsicle
12 2½ FL. OZ.
Dwarf
BRAND
NET WT. 8 OZ.
FANCY NEW YORK STATE
SAUERKRAUT
Chef Pierre
Hi-Pie
Fish Sticks
Serve
PAY DAY
SALTED NUT BAR
Hollywood
NET WT 1.5 OZ
Tender Ocean Cod
JONKER FRIS
A QUIESCENTLY FROZEN CONFECTION

Shasta

Fiscal 1978 was a mixed year for Shasta Beverages. While sales increased 7.9% to almost $200 million, operating earnings declined. Several factors caused the downturn:

▪ Increased Promotional Activity. The severe and extended price competition from the "cola wars" necessitated stepped-up promotional activity to maintain volume which significantly lowered margins.

▪ Saccharin. The questions raised about the artificial sweetener saccharin and the resultant voluntary ban on diet product advertising caused a shift in Shasta's sales mix from diet to regular sugar-based drinks during last summer's heavy consumption season. Because of Shasta's relatively high proportion of diet sales, earnings suffered.

▪ New Business Start-Up. Shasta instituted two major programs during the year. Both have substantial long-term promise, but programmed start-up costs lowered earnings in 1978. Returnable bottle operations were offered in five major markets to provide the consumer a better value per ounce than Shasta's traditional cans and to offset the potential impact of restrictive container legislation in some areas. In addition, a major effort was initiated to develop a substantial position in the food service market.

Both projects report encouraging progress and Shasta is looking forward to significant future profitable growth in these two areas, although both programs will probably depress Shasta's 1979 earnings as investment spending continues.

Shasta constantly reviews product taste to keep pace with the consumer's changing preferences. Recent reformulations have met with particularly high acceptance. In blind taste tests, Shasta's new cola and lemon-lime flavors were favored over the nation's largest brands by those people who expressed a preference. Initial testing of the updated root beer flavor is meeting with similar results. New promotion and advertising programs initiated in recent months reflect these consumer preferences and tie in Shasta's quality at a lower everyday price. Response to the campaign to date has been encouraging.

Shasta's packaging was updated with new graphic formats for its cola and 13 other flavors. The contemporary rainbow design accents the flavor variety while adding cohesion to the look of the product while on display. Each flavor is part of a whole theme, rather than placing different emphasis on each flavor. A two-litre plastic bottle was tested in late summer and Short Shastas®, soft drinks in eight-ounce cans, now include five regular and two diet flavors.

During the past year, Shasta's management team was considerably strengthened with the addition of several key executives who bring excellent packaged-goods experience to direct the company in accelerating its sales and earnings growth.

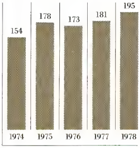
Shasta Beverages is a leading producer and aggressive marketer of diet and regular soft drinks offered in the industry's broadest line of consumer-tested flavors.

Shasta's food service dispenser and fountain products open a major new market.

Shasta's new two-litre plastic bottle is a response to consumer demand for larger, non-returnable packaging.

(at right)
Much of the Shasta product line has been reformulated in response to changing consumer taste preferences.

Sales
(in millions of dollars)




Shasta Cola
Shasta STRAWBERRY SODA
(355 ML)
Shasta Cola
12 FL OZ (355 ML)
Shasta LEMON LIME SODA
12 FL OZ (355 ML)
DIET SUGAR FREE Shasta ORANGE
DIET SUGAR FREE Shasta DRAFT ROOT BEER

Apparel and Home Furnishings

During the past few years, Consolidated Foods has divested a number of apparel positions that did not fit into overall long-range growth plans. The remaining units—all profitable—have excellent consumer franchises, as well as sales and earnings patterns more characteristic of consumer packaged goods than high-fashion, cyclical apparel companies. These strong remaining divisions increased sales 11.2% to \$283 million and also improved earnings.

The Aris Isotoner division again set records in sales and earnings. The company has compiled one of the outstanding growth records at Consolidated Foods. Aris' sales have benefited both from the addition of new customers and from greater penetration within individual glove departments.

Robert Bruce's record year was the result of solid sales increases in all of its product lines, including Arnold Palmer® sweaters, Jimmy Connors sportswear and other traditional items. With an increasing distribution base in the department and specialty store markets, Robert Bruce anticipates that this year's record growth is only the foundation for continued expansion.

Gant experienced extremely strong sales in 1978. However, dress shirt production exceeded sales. The excess was marked down and quickly liquidated to return inventory to more normal levels. As a result, earnings were lower for the year.

Gant's dress shirt line for men remains one of the most respected brands in finer department and specialty stores and Gant's sportswear, including the Rugger line, continues to be well received. Gant is expected to reestablish its earnings growth in 1979.

Canadian Lady, the Montreal-based manufacturer of women's undergarments, had another record year. The Dici® Nova line, introduced this year for contemporary women in the 25-35 age bracket, met with excellent results.

Sirena, the nation's fourth largest bathing suit manufacturer, recorded another excellent year. Sales of its high-quality swimwear continued strong and consumers responded well to related "wearabouts," items for lounging and the beach.

Spectrum Fabrics made a substantial recovery in earnings compared to the prior year and its current backlog indicates further improvement. The Trend of the Times portion of Spectrum was sold during the year and an agreement in principle was reached to sell Val D'Or Industries.

Graber increased sales significantly in its traditional drapery hardware and window treatment businesses. It also added two major customers, both national retail chains. A solid distribution base and the continued growth for woven woods, one inch horizontal and vertical blinds, plus several new concepts in drapery hardware planned for 1979, suggest that Graber will continue to achieve improved growth in sales and earnings in the years ahead.

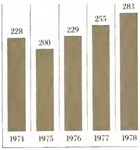
Conso Products Company, a manufacturer of upholstery trim, drapery tie-backs and related products, was integrated into the Graber division. The start-up costs associated with the new chain business and the one-time cost of the integration resulted in slightly lower earnings for Graber.

Nationally-branded consumer products make up the Apparel and Home Furnishings Group. Well-known brands include Aris, Sirena, Wonder-Bra, Graber, Robert Bruce and Gant.

Sold at finer department and specialty stores, Gant shirts and Robert Bruce sweaters have earned an excellent consumer reputation.

(at right)
Quality and style characterize products of the Apparel and Home Furnishings Group. Women's underfashions, men's sweaters, gloves, mittens, scarves, drapery hardware and window blinds are representative of the group's products.

Sales
(in millions of dollars)



DiciNova 950
DiciNova 905
ARIS
US SKI TEAM
OFFICIAL SUPPLIER
ROBERT BRUCE
MADE IN U.S.A.
-M-
1130
WonderBra®

PYA/Monarch Food Service

The PYA/Monarch Food Service Group set records again in 1978. Sales increased 24.4% to $476 million. Internal growth accounted for about $60 million of the sales increase while acquisitions added about $33 million. Operating earnings also rose to record levels. The group now operates 23 distribution branches serving major metropolitan areas throughout the United States.

Pearce-Young-Angel (PYA) extended its record of consecutive increases in sales and earnings to 18 years. Since its acquisition in 1967, PYA's sales have increased more than 700%. The company's formula for success is to:

- Increase the number of customers by further penetrating current markets;
- Expand into new geographic areas;
- Provide a larger proportion of each customer's total requirements by expanding its overall product line.

Today, the company's inventory includes virtually every item, from food products to paper napkins, required to keep most restaurants and other food service operations running smoothly.

PYA is expanding into the Virginia and Florida markets and is seeking to penetrate the Atlanta market. These three new areas combined have a food service volume considerably greater than PYA's core North and South Carolina markets.

PYA made significant capital investments in its Charlotte, N.C., facility and opened a new warehouse in Raleigh, N.C. Both are well-positioned to capture a greater share of their growing market.

Monarch also had an improved year. Sales increased to record levels and earnings kept pace. Monarch was strengthened by the acquisition of four distribution branches. They added $33 million to Monarch's sales, although their total contribution would have been approximately $80 million if their results were included for the full year.

S. Vogel Sons, Inc., headquartered in Hartford, was acquired last fall. It provides an additional geographic link to the Eastern U.S. network. In February, the corporation acquired the Harrison House division of Super Valu Stores, Inc. Its distribution branches in Minneapolis, Des Moines and Ft. Wayne complement existing Monarch operations in Chicago and Detroit. In addition, Harrison House brings marketing expertise in the sale of food service equipment, a product area that previously had not been actively pursued by the group.

The PYA/Monarch Food Service Group has become a respected leader in a highly fragmented, yet rapidly growing, industry. The food service market, with distributor level sales of nearly $40 billion, continues to exhibit strength as consumers spend an increasing portion of their food dollars for meals away from home. PYA/Monarch expects to participate strongly as the industry expands and grows increasingly sophisticated.

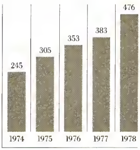
The PYA/Monarch Food Service Group operates 23 distribution branches serving major metropolitan areas. The operations stock more than 3,000 items, virtually everything required for the day-to-day operations of the food service industry.

PYA/Monarch opened a major warehouse in Raleigh, N.C.

Harrison House expands the group's midwestern distribution capabilities.

(at right)
PYA/Monarch supplies nearly every product needed by food service operators ranging from fast food and "white tablecloth" restaurants to hospital and school cafeterias.

Sales
(in millions of dollars)



Monarch
TO OPEN
Monarch
LARGE
WHITE
MINTS
Monarch
Monarch
Monarch
Monarch
Monarch
Monarch
TUNA
SOLID PACK
IN WATER
Monarch
Appetizers
Soup du Jour .45
French Onion Soup .45
Chicken Broth with Rice .45
.45
Marinated Herring 1.25
Fruit Cup .75
Shrimp Cocktail 2.95
Greek Salad 1.50
Deluxe Relish Tray .60 per Person
From Our Broiler
just the way you like it 8.75
One full pound, beautifully marbled, tenderly aged 8.75
Flavorful, hearty beef 6.75
6.75
6.75
4.95
13.50
12.50
7.25
5.95

Lawson's

After several years of essentially flat sales and eroding earnings, Lawson's accomplished a major turnaround in 1978. Sales improved 26.8% to $229 million while operating earnings rebounded to near record levels.

Under the direction of new management, Lawson's reviewed its entire operation and made a number of significant changes. Business hours were extended at every store, with many facilities remaining open 24 hours versus the traditional 16. As a result, sales improved throughout all hours of operation as customers became aware of the "new" Lawson's.

Once shoppers arrived, they found that Lawson's was changing from a milk and bread store to a full convenience store. National brands replaced or supplemented private label and regional brands in categories such as high volume snack products. More convenience foods, such as hot coffee and breakfast rolls and a "sandwich-to-go" program, were introduced. Popular beer, wine and soft drink sections were expanded to give the consumer a greater selection. New store interiors made it easier for customers to serve themselves, considerably reducing waiting time at the checkout counter.

To obtain incremental sales increases from extended hours, Lawson's incurred on-going higher labor and utility costs, plus training and other related start-up expenses. Despite this programmed investment spending, Lawson's was able to improve earnings substantially during the year.

The company is continuing its ambitious customer-oriented programs to build sales and earnings. As for the future, approximately 70 new stores will be opened in 1979. The total number of outlets will increase from approximately 730 to 780 after the closing of some older properties is taken into account. Concurrently, many existing stores are being updated to make them even more attractive and convenient for customers. More self-service items are being offered and new merchandising and promotion programs are being tested to build upon Lawson's unique image of quality for the bakery and dairy products it manufactures, as well as the traditional convenience and deli items it offers.

Internally, Lawson's upgraded its gasoline-powered truck fleet to more economical diesels. Warehousing operations were revamped to improve efficiency and a significant reduction in inventories was realized. These and other programs that are underway should continue to improve Lawson's margins.

With the convenience store industry projected to continue to expand its share of total retail food sales, Lawson's is poised to regain its position as one of the leading chains in the United States.

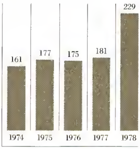
Lawson's is a major convenience store chain with operations in Ohio and four neighboring states. An innovative pioneer in the industry, the company still produces its own quality bread and milk products.

Lawson's plans to open 70 new stores in 1979.

To better serve late night shoppers, many Lawson's stores are now open 24 hours.

(at right)
Lawson's has completed a major turnaround with a combination of better-designed stores, new equipment, additional convenience foods and traditional quality private label bakery and dairy products.

Sales
(in millions of dollars)




Lawson's
PASTEURIZED HOMOGENIZED
VITAMIN D MILK
KEEP REFRIGERATED
Lawson's
FRESH START
Lawson's
White
ENRICHED BREAD
NET WT. 16 OZ. (1 LB.) 454 GRAMS
LAWSON'S BOLOGNA
BOLOGNA
KEEP REFRIGERATED
LAWSON'S Macaroni Salad
Lawson's BUTTER

Electrolux

Electrolux sales increased 3.6% to a record $357 million. The company's U.S. division's earnings also reached record levels. Overall, however, North American operating earnings declined slightly below 1977's record mark due to the soft Canadian economy, where Electrolux (Canada) unit sales were off 7% and the value of the Canadian dollar remained depressed. In the aggregate, however, the company had an outstanding year and continues by far to be Consolidated Foods' single largest earnings contributor.

Many positive, long-term developments took place during 1978. Most significant was the introduction of an upright vacuum cleaner, the first in Electrolux history. The result of five years' research and development, the new product more than doubles the company's potential market as more than half of all cleaner sales are other than Electrolux's traditional cannister models.

Like all Electrolux products, the new upright is precision-engineered and contains cleaning features not found in competitive models. And like its sister machines, the upright demonstrably "digs more dirt." In addition, it generally has not competed with other Electrolux products. Sales have improved every period and the machine is being put into national distribution which should be completed this fall. In addition, Electrolux will begin production of a heavy-duty, upright model to sell in the extensive commercial market for use in hotel and office cleaning.

Another significant action was expansion of the company's sales force. In January, Electrolux began a major recruiting and training program. By May, sales personnel making calls to homes in the U.S., increased approximately 10% and unit sales immediately began to set new records. Near the end of the fiscal year, many of the programs were modified and initiated in Canada with encouraging preliminary results.

Electrolux introduced nationally a new product in the home water processing field during the year. Due to the poor quality of the nation's water supply in many areas, the market for bottled water and home water purification systems is mushrooming.

Called the Aqualux® Water Processor, it is a premier, home water treatment system easily installed under the kitchen or bathroom sink. It conveniently cleanses drinking water economically for less than a dime a gallon. The Aqualux® unit removes common pollutants and produces clear water free of chemical tastes and odors, but does not strip water of beneficial minerals or fluoride added for dental health. It also removes the majority of bacteria and other substances while preventing the growth of bacteria in the filter medium, a problem common to lesser-quality, lower-priced competitive units. A separate sales force has been established, and like other Electrolux products, the unit is sold directly in the home. It also is marketed to food service operations which require high-quality water for production of coffee, juices and related items.

The other divisions of Electrolux—White Mop, Lawrence Hose and Electrolux Chemicals—achieved performances near or above record levels.

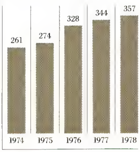
Electrolux produces superior cleaning machines and products. In addition to vacuum cleaners, the company manufactures floor polishers, rug shampooers and home water filtration equipment.

The new Aqualux® Water Processor cleanses home drinking water conveniently and economically.

The new Electrolux upright more than doubles the company's potential market.

(at right)
The flagship of Electrolux, the Super J, offers an unmatched assortment of attachments and features.

Sales
(in millions of dollars)




ELECTROLUX
POWER NOZZLE
WARNING: ELECTRIC
SHOCK MAY OCCUR IF
USED OUTDOORS OR
Automatic Control
BAG LIGHT

Diversified Products

The Diversified Products Group's sales were up 11.1% to $360 million. Operating earnings remained strong for nearly all units and the outlook remains positive.

Lyon's Restaurants logged an excellent year, recording a 26% sales increase. The West Coast restaurant chain opened five restaurants during the year. Eight more will be opened in 1979 bringing the total to 40 units. The company expanded from its California base into Nevada and Oregon during the 12-month period and will enter Washington during 1979. The growing popularity of family style, moderately priced restaurants and territorial expansion promise excellent growth opportunities in the coming year.

Abbey Rents is now Abbey Medical/Abbey Rents to reflect its increased emphasis on medical equipment sales and rentals. While remaining a significant factor in party supply rentals on the West Coast, the company is becoming a major national distributor of health-related equipment.

Tyco reported a record year with nearly a 15% increase in sales and an excellent improvement in operating earnings. This strong effort was paced by auto racing set sales. A new slotless model introduced for the coming Christmas season is being well received by the trade.

Lardenois led the group's three home and personal care product companies with record results. The strengthening French economy and firmer prices sparked the performance. Fuller Brush posted a record year of sales and earnings increases. Earnings were the highest in the ten years of its association with Consolidated Foods. Unit volume was up in the United States, Canada and Mexico. In addition, management is undertaking a major recruitment program to expand the sales force. Intradal experienced a static market in Holland and Belgium which more than offset improvements in Indonesia, France, Germany and Canada. Each of the three companies has taken measures to improve its strength in the marketplace and they expect improved results for the coming year.

The Oxford Group, specialty chemical and cleaning businesses, achieved a 9% improvement in sales with a modest gain in earnings. Strong performers were Oxford Chemicals and Sanders Paints. The Olympic Manufacturing division, producers of machinery and chemicals for transportation cleaning, was made a division of Oxford Chemicals to further concentrate the corporation's strengths in industrial cleaning.

Charter Supply, Chicago Transparent, Max Klein, Plasti-Kote, Oxwall Tool and Prager Brush were sold effective April 1. Also sold in the year was Cosco Industries, a group of commercial products companies.

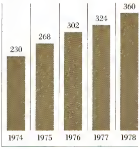
The Diversified Products Group combines service and manufacturing companies with growth opportunities in both industrial and consumer markets including restaurants, personal care products, equipment rental, chemicals and toys.

Tyco introduced a new line of slotless auto racing sets.

Oxford Chemicals produces a broad line of industrial and commercial cleaning products.

(at right)
Three of the Diversified Products Group companies manufacture proprietary and contracted products for the home and personal products markets. Under foreign licensing agreements, products such as Johnson & Johnson's O.B. line are produced by Intradal.

Sales
(in millions of dollars)



o.b.
20 TAMPONS
NORMAAL
met ronde top
LABOR D.M. BRUSSELS
40 TAMPONS
SPECIAL
BOITE ECONOMIQUE
avec bout arrondi
Odorex
ROLLER
antitranspirant
SHAMPOOING
miss dén
aux herbes
Kemt
crèmespoeli
anti-klit
net 115 ml
dén

Responding to Social Needs

When Consolidated Foods began in 1939, a good corporate citizen was one who not only provided necessary goods and services but offered employment during the Depression.

That foundation of citizenship remains unchanged. Today, Consolidated Foods provides employment to approximately 81,000 people who earned $750 million in wages and benefits while providing the world with more than $3.5 billion in goods and services.

At the same time, the corporation has instituted well-planned programs designed to improve the quality of life through an increased responsiveness to social needs. We are committed to helping enrich the lives of our shareholders, employees and customers, for we believe that our actions in this area cannot help but improve the overall business environment of our society.

To ensure that our responsiveness to social needs is both appropriate and well-managed, a board-level committee has been established. The charter of this Public Responsibility Committee is to establish policy and provide guidelines in the areas of corporate contributions, employee participation in civic and community activities, equal employment opportunities, product quality and customer response and energy conservation.

Consolidated Foods' response to these social needs includes:

Contributions
Certainly one of the most visible forms of social responsiveness is contributions. In 1978, the corporation donated to more than 200 non-profit organizations in the health and welfare, hospital, youth, civic, educational, cultural and social environment fields. A more detailed review of donations and policies is available by writing the corporate headquarters.

Employee Involvement
Consolidated Foods encourages employees to participate in social and civic works activities. Two programs provide additional support. Matching Gifts is a plan which matches employee gifts to the college or university of their choice. Matching Grants is a program in which the corporation matches funds raised by employees and the community for special projects. Participation in these two programs has shown consistent growth.

Equal Employment Opportunity
Equal employment opportunity is a basic social need recognized by the corporation. Affirmative action programs are actively encouraged by top management at all levels of operation.

Response to Consumer Needs
During the year, virtually every division developed new products and/or introduced new packaging and improvements to existing products to meet changing consumer needs. In addition, the corporation and its divisions responded to more than 50,000 letters and telephone calls to answer questions, provide product information and clear up problems.

Energy
While most divisions are not intensive energy users, the corporation takes steps to conserve fuel wherever possible. Of particular note is the Union Sugar division's program. Over the past three years, Union Sugar has invested $850,000 to revamp its steam-processing system which helped cut overall energy usage in 1978 by nearly 11%. The recent purchase of diesel-powered vehicles by several divisions will also conserve a considerable amount of fuel.

Form 10-K

A copy of Consolidated Foods Corporation's 10-K report filed with the Securities and Exchange Commission for 1978 can be obtained by writing the Secretary, Consolidated Foods Corporation, 135 South LaSalle Street, Chicago, Ill., 60603. The financial statements in this annual report reflect substantially all of the financial information included in the 10-K.

(dollars in thousands except per share data)	1978	1977	1976*	1975	1974
Results of Operations					
Continuing Operations:					
Net sales	**$3,535,567**	$2,932,829	$2,788,370	$2,522,843	$2,352,735
Cost of sales	**2,445,136**	1,981,889	1,899,730	1,762,593	1,617,728
Selling, general and administrative expenses	**843,655**	760,607	719,079	640,538	575,670
Interest, net	**13,827**	9,865	10,520	21,321	19,267
Income from continuing operations before income taxes and minority interests	**232,949**	180,468	159,041	98,391	140,070
Income taxes	**126,796**	89,488	79,312	49,916	62,432
Income from continuing operations before minority interests	**106,153**	90,980	79,729	48,475	77,638
Minority interests	**5,520**	497	275	(69)	484
Income from continuing operations	**100,633**	90,483	79,454	48,544	77,154
Discontinued Operations:					
Income (loss) from operations	—	—	—	(6,082)	(2,703)
Adjustment to (provision for) estimated loss on disposition	—	—	12,000	(28,900)	—
Net Income	**100,633**	90,483	91,454	13,562	74,451
Net Income Per Common Share:					
Income from continuing operations	**3.21**	2.87	2.53	1.49	2.51
Net income	**3.21**	2.87	2.94	.28	2.41
Average shares outstanding	**29,705**	29,641	29,328	29,003	28,672
Net Income Per Common Share Assuming Conversion of Preferred Stock:					
Income from continuing operations	**3.10**	2.79	2.47	1.49	2.45
Net income	**3.10**	2.79	2.84	.28	2.37
Average shares outstanding	**32,498**	32,444	32,158	31,838	31,453
Financial Position					
Cash, Short-Term Investments and Marketable Securities	**$ 111,426**	$ 101,054	$ 114,817	$ 42,536	$ 12,706
Accounts Receivable	**382,964**	241,814	235,776	211,078	270,087
Inventories	**507,865**	379,057	337,765	313,480	398,937
Working Capital	**489,962**	427,005	387,950	349,806	360,589
Property, Net	**466,500**	347,935	341,733	330,718	332,649
Long-Term Debt	**261,852**	164,767	173,832	186,726	191,276
Stockholders' Equity	**727,113**	679,647	633,817	583,214	607,732
Return on Average Stockholders' Equity	**14.3%**	13.8%	13.1%	8.2%	13.1%
Dividends					
Preferred Stock ($4.50 per share)	**$ 5,309**	$ 5,309	$ 5,309	$ 5,309	$ 5,309
Common Stock	**42,130**	39,009	37,939	37,689	36,073
Per share	**1.475**	1.3875	1.35	1.35	1.3375
Shareholders of Record					
Common	**46,900**	49,300	52,000	56,200	48,100
Preferred	**4,500**	4,600	4,500	4,500	4,300
Number of Employees	**80,900**	75,700	77,300	75,200	79,000

*Fifty-three week year.
The Notes to Financial Statements should be read in conjunction with the Financial Summary.

The year ended July 1, 1978 was a record year for Consolidated Foods as sales increased to $3.5 billion, surpassing $3 billion for the first time. The results of several business segments were augmented by companies acquired during the year as follows:

Business Segment	Company Acquired	Principal Products
Frozen and Processed Foods	Chef Pierre Cooks Processed Foods and Heim Brothers	Frozen pies Processed meat
Food Services	Harrison House and S. Vogel Sons	Institutional distribution of food and related disposable products
Beverages and Confections	Douwe Egberts*	Coffee, tea and tobacco

*A 65% interest was acquired.

It should also be noted that several operating companies which did not fit into the corporation's long-term strategy were sold during the year.

Comparison of 1978 to 1977

Net earnings per share for 1978 reached $3.21. This represented an increase of $.34 or 11.8% over 1977. A discussion of the highlights of 1978's financial results follows.

Sales

Consolidated net sales at $3.5 billion were up $602.8 million or 20.6% from 1977. The factors responsible for this increase are summarized below:

(in millions)

Sales in 1977	$2,933
Factors responsible for sales increase:	
Increased unit volume	137
Product mix and price	177
Net effect of acquisitions and divestitures	289
Sales in 1978	$3,536

The table shows that more than half of the sales gain was from the corporation's continuing businesses.

Frozen and Processed Foods sales increased 14.3% to $1.1 billion. Improved unit volume and higher meat prices resulted in a substantial sales gain at the meat companies. Sara Lee posted improved sales in both the retail and food service lines, as their new Light 'n Luscious line of low-calorie desserts met with very favorable acceptance in the United States. Booth Fisheries' sales climbed 8%, assisted by positive acceptance of its new line of battered products. These improved results were partially offset by lower sales at Union Sugar which was affected by adverse weather and continued depressed world sugar prices.

The Food Services companies experienced sales growth of 14.9% to $739 million. Pearce-Young-Angel and Monarch achieved record sales due to increased market penetration, higher prices and the acquisition during the year of Minneapolis-based Harrison House and S. Vogel Sons, Inc., of Hartford, Conn. Lawson's also registered significant sales gains due to extended store hours and improved merchandising programs. The Lyon's Restaurant chain opened five new restaurants and again achieved record sales. Partially offsetting these higher sales was the divestiture of the L-K restaurant and motel chain late in the prior year.

Sales of the Beverages and Confections companies in 1978 were $664 million, compared to $251 million in 1977. The sales contribution from Douwe Egberts accounted for the major portion of this sales growth.

Home Products and Services sales increased 1.6% to $756 million. Electrolux U.S. posted a strong sales gain which was partially offset by slightly lower sales in Canada. Canadian sales were adversely influenced by that country's current economic climate. Graber's sales increased 13.9% reflecting broader retail distribution and successful new product introductions, principally in woven wood window fashion products. The sale of six small hardware and houseware companies at the end of the third quarter of the year dampened the sales increase of this business segment.

Apparel and Commercial Products' sales decreased 13.5% to $309 million due to the sale of a printing and industrial marking business and several apparel operations. Sales for the continuing operations of this business segment were up 16.1% primarily due to increased unit volume at Oxford Chemicals, Aris Gloves, Robert Bruce and Gant.

A five-year summary of sales and pretax income by industry segment is shown on page 35 and the charts below.

Gross Profit
Gross profit increased 14.7% in 1978, climbing $139.5 million to $1,090.4 million. The major factor contributing to the dollar increase was the acquisition of Douwe Egberts. The gross profit margin declined from 32.4% to 30.8%, as several units experienced lower margins, most notably Union Sugar which suffered from depressed world sugar prices.

Due to a one-time, Douwe Egberts-related adjustment, explained in greater detail in the Notes to Financial Statements, consolidated gross profit and deferred tax expense were artificially increased by $24 million.

Selling, General and Administrative Expenses
The corporation's selling, general and administrative expenses increased $83 million in absolute terms from last year, but decreased as a percent of sales from 26% to 24%.

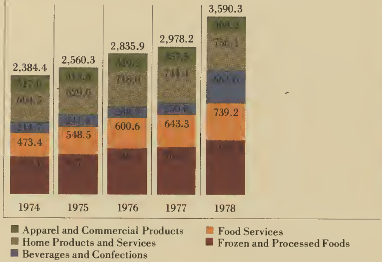
The substantial dollar increase in selling, general and administrative spending was primarily due to the inclusion of Douwe Egberts and higher expenses at Sara Lee, Shasta and Lawson's. Sara Lee's higher spending was due to increased advertising and promotion associated with new products, most notably their low-calorie Light 'n Luscious product line. At Shasta, advertising and promotional spending increased in response to intense competition in key market areas. Distribution costs also were up due to increased returnable bottle sales. Spending increased at Lawson's as a result of the higher minimum wage rate and increased operating costs associated with extended hours of operation.

Spending as a percent of sales was down slightly, principally due to the inclusion of Douwe Egberts which has a lower spending rate than the average of our other companies.

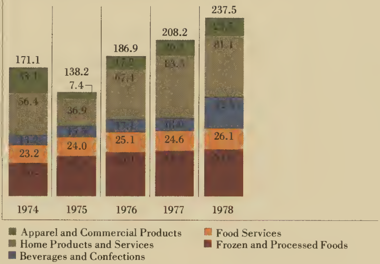
Interest
Net interest expense of $13.8 million was up $4 million from last year. The increase was attributable to a higher level of long-term debt resulting from a private placement as discussed in "Financial Position."

Net Income
The effective income tax rate of 54.4% in 1978 compares to 49.6% last year. This increase was due to the Douwe Egberts-related adjustment mentioned earlier. Net income from continuing operations was not affected by this adjustment and exceeded $100 million for the first time in the corporation's history. The favorable operating results and acquisitions which have been previously discussed were responsible for this 11% improvement from last year.

Sales by Industry Segment
(in millions of dollars)



Pre-Tax Income by Industry Segment
(in millions of dollars)



1977 Compared to 1976

Net sales in 1977 were $2.93 billion, an increase of $144 million or 5.2% from 1976, which was a 53-week year. The increase resulted largely from improved unit volume in all industry segments.

Increased gross profit margins were realized in four of the five industry segments. Improved product mix, cost reductions due to equipment modernization, fuller utilization of production capacity and facilities consolidation were responsible for the increases.

Selling, general and administrative costs increased 5.8%. Major increases occurred at Shasta in response to competitive pricing pressures and the Specialty Meats companies reflecting geographical market expansion. Lawson's expenses were also up due to higher wages and utility costs at the store level.

Interest expense declined primarily as a result of the normal reduction of long-term debt and a higher average level of short-term investments. The effective tax rate declined slightly from 49.9% to 49.6%. Income from continuing operations increased to a record $90.5 million, an increase of $11 million, principally due to favorable operating results.

Financial Position

Net working capital increased $63 million to $490 million. Cash flow from operations was $160.4 million, up $16.3 million from 1977. Cash, short-term investments and marketable securities increased $10.4 million, while inventories and accounts receivable increased $128.8 million and $141.2 million, respectively, in line with higher sales and the acquisitions completed during the year. As shown on the chart on page 5, return on average stockholders' equity continued to trend upward to 14.3% in 1978, up .5 points from 1977.

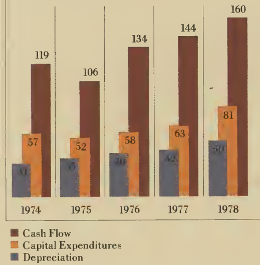
On March 31, 1978, the corporation announced the private placement of a 20-year, $100 million note at an 8.65% interest rate. The proceeds were used to refinance short-term debt and for general corporate purposes. The loan brings our ratio of long-term debt to total invested capital to approximately 26%, which is consistent with our targeted capital structure. In view of the strong financial position of the corporation, our long-term debt has maintained its AA and Aa ratings from the major agencies.

Capital Expenditures

Capital expenditures in 1978 amounted to $80.8 million. Expenditures were primarily for production machinery and equipment, expansion of physical plants and normal replacements. Next year, capital spending is planned to be substantially greater. Major expenditures will be for expansion of productive capacity, distribution equipment additions and replacements in the food service companies, cost reduction programs and normal replacement spending. Cash flow from operations, capital expenditures and depreciation for each of the last five years are shown on the chart below.

Cash Flow/Capital Expenditures/Depreciation

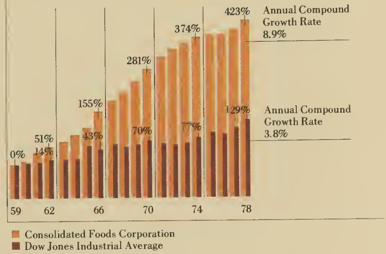
(in millions of dollars)



Capital expenditures reached a record $81 million in 1978; capital expenditures averaged 1.57 times depreciation over the last five years.

Dividend Growth

(percent increase from base year)



Dividends on Common Stock
Dividends paid were $42 million in 1978, a $3 million increase from 1977. This represented 42% of net income compared to 43% last year. During the year, the annual dividend rate was increased by 7% to $1.50 per share. The July 1 dividend was the corporation's 130th consecutive quarterly dividend payment. The chart on page 33 shows that the corporation's dividend has grown at an 8.9% annual compound rate over the last 20 years compared to a 3.8% dividend growth rate for the Dow Jones Industrial Average.

Stock Repurchase Program
On June 1, the corporation announced the board of directors had approved the purchase of up to 1,500,000 shares of its common stock through open market and negotiated transactions over the next six months. The shares will be used for such purposes as funding the corporation's employee stock purchase program and stock option plans, conversion of preferred shares and possible future acquisitions. During fiscal 1978, 433,000 shares of common stock were purchased by the corporation on the open market.

Credit Corporation
Consolidated Foods Credit Corporation is a wholly-owned subsidiary which finances certain of the corporation's installment accounts receivable. These receivables amounted to $55.7 million at July 1, 1978. As of that date, the Credit Corporation had issued short-term commercial paper of $36.9 million which carried an A-1 rating. The Credit Corporation is reflected in the consolidated financial statements on the equity method and its condensed financial statements are included in the Notes to Financial Statements.

Quarterly Information
Comparative data for each of the four quarters of 1978 and 1977 are shown in the Notes to Financial Statements. The normal seasonal nature of the corporation's businesses is obscured in the table for 1978 because of the inclusion of Douwe Egberts in the corporation's results beginning in the third quarter. Typically, sales and earnings in this quarter (January, February and March) are lower due to winter weather and the post-holiday lull. The fourth quarter is our strongest quarter as milder weather is helpful to our food and beverage companies and enhances our direct sales companies' ability to initiate major sales efforts.

Quarterly Dividends

	Common Stock		Preferred Stock	
(in dollars)	1978	1977	1978	1977
First Quarter	.35	.33¾	1.12½	1.12½
Second Quarter	.37½	.35	1.12½	1.12½
Third Quarter	.37½	.35	1.12½	1.12½
Fourth Quarter	.37½	.35	1.12½	1.12½

Quarterly Stock Price Range

	Common Stock		Preferred Stock	
(in dollars)	1978	1977	1978	1977
First Quarter	26¾-24⅝	26⅛-22⅞	70½-67	68 -60⅛
Second Quarter	25⅜-23	27⅛-22¾	69⅛-61¾	69½-62⅞
Third Quarter	25 -23⅛	26¾-23¼	64¾-60½	71½-64
Fourth Quarter	26 -23⅜	25⅞-23⅜	64½-61¼	68⅝-63⅜

Operating Results by Industry Segment[1]

(in millions)	1978 Sales	1978 Pre-Tax Income	1977 Sales	1977 Pre-Tax Income	1976[2] Sales	1976[2] Pre-Tax Income	1975 Sales	1975 Pre-Tax Income	1974 Sales	1974 Pre-Tax Income
Frozen and Processed Foods	$1,122.2	$ 64.3	$ 982.2	$ 61.1	$ 949.4	$ 60.1	$ 827.7	$ 54.4	$ 774.0	$ 45.2
Food Services	739.2	26.1	643.3	24.6	600.6	25.1	548.5	24.0	473.4	23.2
Beverages and Confections	663.6	42.5[3]	250.8	18.9	238.7	17.1	241.3	15.5	214.7	13.2
Home Products and Services	756.1	81.1	744.4	83.5	718.0	67.4	629.0	36.9	604.5	56.4
Apparel and Commercial Products	309.2	23.5	357.5	20.1	329.2	17.2	313.8	7.4	317.8	33.1
Total	3,590.3	237.5	2,978.2	208.2	2,835.9	186.9	2,560.3	138.2	2,384.4	171.1
Intersegment Sales	(54.7)	—	(45.4)	—	(47.5)	—	(37.5)	—	(31.7)	—
Interest, Net	—	(13.8)	—	(9.9)	—	(10.5)	—	(21.3)	—	(19.3)
Unallocated Corporate Expense	—	(14.8)	—	(17.8)	—	(17.4)	—	(18.5)	—	(11.7)
Net Sales and Pre-Tax Income	$3,535.6	$208.9[3]	$2,932.8	$180.5	$2,788.4	$159.0	$2,522.8	$ 98.4	$2,352.7	$140.1

[1]Sales by industry segment include sales to outside customers and sales between industry segments. Intersegment sales are at transfer prices which are equivalent to market value.

[2]Fifty-three week year.

[3]Excludes $24 million increase in gross profit as a result of valuing Douwe Egberts' inventory acquired net of deferred taxes.

Sales by Class of Products

The following table sets forth information with respect to each class of similar products which accounted for at least 10% of the corporation's sales.

(in millions)	1978	1977	1976	1975	1974
Specialty meats (included in "Frozen and Processed Foods")	$533.8	$459.2	$440.6	$357.6	$353.4
Food and supplies for volume feeding operations (included in "Food Services")	476.0	382.7	352.5	305.3	245.1
Coffee and tea (included in "Beverages and Confections")	401.5	—	—	—	—
Home cleaning appliances (included in "Home Products and Services")	356.6	344.4	327.5	273.6	260.9

The corporation is a diversified company primarily engaged in the purchase, manufacture, processing and distribution of a broad range of products and services. These products and services have been classified into the following five segments:

Frozen and Processed Foods—
This group produces and sells frozen baked goods; fresh meat, processed meat and sausage products; fish and seafood; canned and processed fruits and vegetables; refined sugar; specialty ice cream products; and pickles, relishes, herring and sauerkraut.

Food Services—
This group operates convenience retail food stores and restaurants and distributes food products and related grocery products to volume feeding operations.

Beverages and Confections—
This group produces, sells and distributes hot and cold beverages, tea, candy and frozen confection products.

Home Products and Services—
This group manufactures and sells home cleaning appliances, home furnishings, housewares, personal care products, rental services and hobby goods.

Apparel and Commercial Products—
This group produces and sells products and renders services including specialty chemicals; building maintenance and security services; commercial vehicle cleaning equipment and supplies; gloves; men's sweaters, slacks and shirts; women's undergarments, sportswear and swimwear.

Consolidated Statements of Income

For the Years Ended July 1, 1978 and July 2, 1977

(in thousands except per share data)	1978	1977
Net Sales	$3,535,567	$2,932,829
Cost and Expenses:		
Cost of sales	2,445,136	1,981,889
Selling, general and administrative expenses	843,655	760,607
Interest, net	13,827	9,865
	3,302,618	2,752,361
Income before Income Taxes and Minority Interests	232,949	180,468
Income Taxes	126,796	89,488
Income before Minority Interests	106,153	90,980
Minority Interests	5,520	497
Net Income	$ 100,633	$ 90,483
Net Income Per Common Share	$3.21	$2.87
Net Income Per Common Share Assuming Conversion of Preferred Stock	$3.10	$2.79

The accompanying Notes to Financial Statements are an integral part of these statements.

July 1, 1978 and July 2, 1977

Assets (in thousands)	1978	1977
Current Assets:		
Cash, short-term investments and marketable securities	$ 111,426	$ 101,054
Trade accounts receivable, less allowances of $22,879 in 1978 and $19,120 in 1977	382,964	241,814
Inventories:		
Finished goods	307,840	254,757
Work in process	49,902	32,979
Materials and supplies	150,123	91,321
	507,865	379,057
Other current assets	33,086	19,656
Total current assets	1,035,341	741,581
Investment in Consolidated Foods Credit Corporation	13,345	12,434
Notes Receivable and Other Assets	32,027	15,541
Property, at cost:		
Land	26,031	14,339
Buildings and improvements	248,589	189,735
Machinery and equipment	446,501	407,128
Construction in progress	29,079	12,577
	750,200	623,779
Less—Accumulated depreciation	283,700	275,844
Property, net	466,500	347,935
Intangible Assets	115,726	91,709
	$1,662,939	$1,209,200

Liabilities and Stockholders' Equity	1978	1977
Current Liabilities:		
Notes payable to foreign banks	$ 14,989	$ —
Accounts payable and accrued liabilities	441,881	280,422
Accrued income taxes	38,302	9,310
Deferred income taxes	39,513	14,388
Current maturities of long-term debt	10,694	10,456
Total current liabilities	545,379	314,576
Long-Term Debt, less current maturities	261,852	164,767
Deferred Income Taxes	40,364	37,861
Other Liabilities	27,045	9,450
Minority Interests	61,186	2,899
Stockholders' Equity:		
Preferred stock	3,687	3,687
Common stock	39,642	39,562
Capital surplus	159,965	157,946
Retained earnings	533,092	479,898
Cost of treasury stock	(9,273)	(1,446)
Total stockholders' equity	727,113	679,647
	$1,662,939	$1,209,200

The accompanying Notes to Financial Statements are an integral part of these balance sheets.

Consolidated Statements of Stockholders' Equity

For the Years Ended July 1, 1978 and July 2, 1977

(in thousands except share data)	Stockholders' Equity: Preferred Stock	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Common Shares Issued	Treasury Common Shares
Balance at July 3, 1976 as previously reported	$3,687	$37,706	$155,783	$428,352	$(1,895)	28,280,132	(181,273)
Add—Restatement for acquisition recorded as pooling of interests	—	1,836	2,967	5,381	—	1,376,802	—
Balance at July 3, 1976 as restated	3,687	39,542	158,750	433,733	(1,895)	29,656,934	(181,273)
Net income	—	—	—	90,483	—	—	—
Cash dividends:							
Common ($1.3875 per share)	—	—	—	(39,009)	—	—	—
Preferred ($4.50 per share)	—	—	—	(5,309)	—	—	—
Shares sold under stock option and purchase plans	—	20	(835)	—	5,763	14,974	232,673
Treasury stock purchases	—	—	—	—	(5,314)	—	(214,500)
Other	—	—	31	—	—	—	—
Balance at July 2, 1977	3,687	39,562	157,946	479,898	(1,446)	29,671,908	(163,100)
Net income	—	—	—	100,633	—	—	—
Cash dividends:							
Common ($1.475 per share)	—	—	—	(42,130)	—	—	—
Preferred ($4.50 per share)	—	—	—	(5,309)	—	—	—
Shares sold under stock option and purchase plans	—	80	1,667	—	3,169	59,824	194,017
Treasury stock purchases	—	—	—	—	(11,060)	—	(433,000)
Other	—	—	352	—	64	16	15,092
Balance at July 1, 1978	$3,687	$39,642	$159,965	$533,092	$(9,273)	29,731,748	(386,991)

The accompanying Notes to Financial Statements are an integral part of these statements.

Consolidated Statements of Changes in Financial Position

For The Years Ended July 1, 1978 and July 2, 1977

(in thousands)	1978	1977
Working Capital Was Provided By:		
Operations—		
Net income	$ 100,633	$ 90,483
Items not affecting working capital—		
Depreciation	50,156	42,355
Deferred income taxes	1,640	4,911
Minority interests and other	7,930	6,269
Total provided by operations	160,359	144,018
Sales and retirements of property	9,820	9,165
Shares sold under stock option and purchase plans	4,957	4,989
Current maturities of long-term notes receivable	2,901	4,233
Long-term borrowings	102,025	2,270
Sales of businesses, net of long-term assets received	24,850	320
Total working capital provided	304,912	164,995
Working Capital Was Used To:		
Purchase property	80,817	63,136
Pay dividends	47,439	44,318
Acquire new businesses, net of working capital acquired	82,395	1,195
Reduce long-term debt	11,952	11,908
Purchase treasury stock	11,060	5,314
Increase other assets	5,902	2,195
Other, net	2,390	(2,126)
Total working capital used	241,955	125,940
Net Increase in Working Capital	$ 62,957	$ 39,055
Increases (Decreases) in Working Capital:		
Cash, short-term investments and marketable securities	$ 10,372	$(13,763)
Trade accounts receivable	141,150	6,038
Inventories	128,808	45,292
Other current assets	13,430	4,244
Notes payable to foreign banks	(14,989)	—
Accounts payable and accrued liabilities	(161,459)	(5,897)
Accrued income taxes	(28,992)	4,751
Deferred income taxes	(25,125)	(2,489)
Current maturities of long-term debt	(238)	879
Net Increase in Working Capital	$ 62,957	$ 39,055

The accompanying Notes to Financial Statements are an integral part of these statements.

Summary of Significant Accounting Policies

Consolidation

The consolidated financial statements include the accounts of the corporation and all subsidiaries except Consolidated Foods Credit Corporation which is reflected in the accounts using the equity method of accounting. All significant intercompany transactions of consolidated subsidiaries are eliminated.

The financial statements of businesses which are acquired in exchange for the common stock of Consolidated Foods Corporation and accounted for as poolings of interests are retroactively included in the accompanying consolidated financial statements.

The net assets of businesses purchased are recorded at their fair market value at the respective dates of acquisition, and accordingly, the consolidated financial statements include the operations of such businesses from their dates of acquisition.

Intangible Assets

The excess of cost over the fair market value of tangible net assets of certain businesses acquired prior to November 1, 1970, (approximately $63 million) is not being amortized. The remaining intangible assets are being amortized on a straight-line method over periods not in excess of 40 years.

Translation of Foreign Currencies

Financial statements of foreign subsidiaries are translated in accordance with Statement of Financial Accounting Standards #8.

Inventory Valuation

Inventories are valued at the lower of cost (principally first in, first out) or market. The costs of finished goods and work in process inventories include manufacturing labor and overhead components.

Property

Property is stated at cost and depreciation is computed using principally the straight-line method over estimated useful lives which range from 3 to 50 years for buildings and improvements and 3 to 25 years for machinery and equipment. The cost of additions and improvements which substantially extend the useful life of a particular asset is capitalized. Repair and maintenance costs are charged to expense. Upon sale, the cost and related accumulated depreciation are removed from the accounts and any gain or loss is included in income.

Income Taxes

Income taxes are provided based on the income reported in the financial statements. Investment tax credits are recognized as a reduction of the provision for income taxes in the year in which they are available for tax purposes.

Federal income taxes are provided on undistributed earnings of foreign subsidiaries which are not considered permanently reinvested. If the earnings of foreign subsidiaries which are considered to be permanently reinvested were remitted, the Federal income taxes due under current tax law would not be material.

Pension Plans

The corporation has various pension and retirement plans which cover substantially all employees. Various actuarial methods are used to determine the annual provision for pension expense; the most prevalent method being the aggregate method which does not deal separately with past-service cost, but includes such cost in normal cost. The provision for pension expense is sufficient to cover normal cost and interest on and amortization of past-service costs over a period not exceeding 40 years. The corporation's policy is to fund the pension costs accrued.

Common Stock

The authorized common stock is 60,000,000 shares with a par value of $1.33⅓.

Under the corporation's qualified and non-qualified stock option plans, executive employees may be granted options to purchase common stock at 100% of the market value at the date of grant. As of July 1, 1978, 1,623,460 shares of authorized but unissued common stock were reserved under the plans; options had been granted on 1,009,211 of the reserved shares at prices ranging from $4.53 to $29.00 per share. During 1978, options on 45,400 shares were granted at prices ranging from $23.63 to $25.13, options for 59,824 shares were exercised at prices ranging from $4.53 to $24.88, and options for 144,567 shares expired or were canceled.

The employee stock purchase plan provides that other employees may purchase, through payroll deductions, up to 38 shares of common stock quarterly at 85% of the market value. As of July 1, 1978, 826,063 shares of authorized but unissued common stock were reserved under this plan.

Preferred Stock

At July 1, 1978, and July 2, 1977, there were 1,179,729 and 1,179,736 shares respectively, of $4.50 Cumulative Convertible Preferred Stock, Series A, outstanding with a stated value of $3.12½ per share. The preferred stock is redeemable at the option of the corporation at prices ranging from $106 per share in 1978 to $100 in 1984 and thereafter. Each share of preferred stock is convertible into 2.357 shares of common stock and is entitled to one vote. In the event of voluntary dissolution, holders of the stock will be entitled to the payment of $100 per share and in the event of an involuntary dissolution to $40 per share (or $47,189,000 in the aggregate at July 1, 1978). As of July 1, 1978, 2,780,621 shares of authorized but unissued common stock were reserved for conversion of preferred stock.

The total authorized preferred stock of the corporation, which is issuable in classes, is 4,000,000 shares and has no par value.

Net Income Per Common Share

Net income per common share is based upon (a) the weighted average number of common and common equivalent shares outstanding during each year (29,705,000 in 1978 and 29,641,000 in 1977) and (b) net income reduced by preferred dividend requirements.

Net income per common share assuming conversion of preferred stock is based upon (a) the weighted average number of common and common equivalent shares outstanding during each year adjusted for the assumed conversion of the convertible preferred stock (32,498,000 in 1978 and 32,444,000 in 1977) and (b) net income.

Acquisitions and Dispositions

On May 12, 1978, the corporation exchanged 1,376,802 shares of its common stock for all the outstanding shares of Chef Pierre, Inc., a manufacturer and distributor of frozen prepared desserts. The acquisition was accounted for as a pooling of interests; accordingly, the accompanying consolidated financial statements include Chef Pierre for all periods prior to the combination.

As a result of the acquisition, sales and net income for 1977 increased $40,800,000 and $2,400,000, respectively, while net income per common share decreased $.06. In 1978, Chef Pierre had revenues of $44,200,000 and net income of $2,500,000 for the 10 months prior to its acquisition.

As of January 1, 1978, the corporation invested approximately $150 million to acquire 65% ownership in Douwe Egberts, B.V., an international coffee, tea and tobacco company headquartered in the Netherlands. The acquisition agreement provides that an acceptable third party or, if none is available, Douwe Egberts shall purchase, at a guaranteed price of approximately $58 million on or before November 11, 1980, 248,372 shares of Douwe Egberts (approximately 25% of total outstanding shares) held by minority interests. Any amount paid in excess of the fair value of the additional net assets acquired will be recorded as an intangible asset.

The acquisition has been accounted for by the purchase method; accordingly, the results of operations of Douwe Egberts have been included in the corporation's results of operations since the date of acquisition. The excess of cost over net assets acquired is being amortized over 40 years.

The following table summarizes unaudited, pro-forma operating results for the corporation for the years ended July 1, 1978, and July 2, 1977, assuming that Douwe Egberts had been acquired at the beginning of 1977 (in thousands except per share data):

	Year Ended	
	July 1, 1978	July 2, 1977
Net sales	$3,872,064	$3,543,692
Net income	99,762*	95,561
Net income per common share	3.18*	3.04
Net income per common share assuming conversion of preferred stock	3.07*	2.94

*Pro-forma unaudited net income for 1978 was adversely affected as a result of the significant decline in world market prices of coffee occurring in mid-1977 which, in turn, caused a subsequent significant decline in unit volume as consumers anticipated price decreases. By December 31, 1977, prices had stabilized and unit sales volume had returned to more normal levels.

Three other businesses were acquired in cash transactions amounting to $19.8 million in 1978. All have been accounted for as purchases and have been included in the financial results from dates of acquisition. Results of operations prior to acquisition were not material.

During 1977 and 1978, the corporation sold several of its divisions. The 1978 results include sales of $99.4 million and income before income taxes of $7.3 million for companies sold during the year, while the 1977 results include sales of $258.9 million and income before income taxes of $11 million for the companies sold during the two years. The sales of these businesses resulted in no material gains or losses.

Industry Segment and Geographic Information
Information related to operating results by industry segment is presented on page 35. Additional information is presented below.

(in millions)

Industry Segments	1978 Assets	1978 Depreciation	1978 Capital Expenditures	1977 Assets	1977 Depreciation	1977 Capital Expenditures
Frozen and Processed Foods	$ 341.5	$15.8	$26.5	$ 307.7	$14.3	$27.6
Food Services	144.0	5.7	12.6	119.0	6.7	9.6
Beverages and Confections	531.2	10.0	19.9	75.0	3.3	3.6
Home Products and Services	379.1	12.7	14.8	406.7	12.3	15.8
Apparel and Commercial Products	147.9	4.0	5.5	178.3	5.3	6.2
Sub-total	1,543.7	48.2	79.3	1,086.7	41.9	62.8
Corporate [1]	119.2	2.0	1.5	122.5	.5	.3
Total	$1,662.9	$50.2	$80.8	$1,209.2	$42.4	$63.1

Geographic Areas	1978 Sales	1978 Pre-Tax Income	1978 Assets	1977 Sales	1977 Pre-Tax Income	1977 Assets
United States	$2,763.9	$179.4	$ 869.3	$2,567.4	$181.1	$ 865.9
Canada	200.2	18.3	99.6	216.9	12.9	108.9
Europe	551.4	35.9 [2]	547.9	134.8	9.6	88.5
Other	50.9	3.9	26.9	43.3	4.6	23.4
Sub-total	3,566.4	237.5	1,543.7	2,962.4	208.2	1,086.7
Inter-area Sales	(30.8)	—	—	(29.6)	—	—
Interest, Net	—	(13.8)	—	—	(9.9)	—
Unallocated Corporate Expense/Assets [1]	—	(14.8)	119.2	—	(17.8)	122.5
Total	$3,535.6	$208.9 [2]	$1,662.9	$2,932.8	$180.5	$1,209.2

[1] Corporate assets are principally cash, short-term investments and notes receivable.
[2] Excludes $24 million increase in gross profit as a result of valuing Douwe Egberts' inventory acquired net of deferred taxes.

The net tangible assets of international operations included in the accompanying consolidated balance sheet were $267.8 million at July 1, 1978, compared to $155.2 million at July 2, 1977. Translation gains/losses were not material to the consolidated financial statements.

Credit Facilities and Long-Term Debt
The corporation has short-term line of credit agreements with several banks which total approximately $57,500,000, including $40,000,000 of domestic lines of credit which are available to both the parent and Consolidated Foods Credit Corporation on an either/or basis and are used to support commercial paper borrowings. Under informal arrangements, the corporation generally maintains compensating balances with participating banks which average approximately 8% of the unused and 20% of the used domestic credit lines. The compensating balances are based on the average collected fund balances per the banks' records and are legally subject to withdrawal by the corporation.

Long-term debt consisted of the following:

(in thousands)	July 1, 1978	July 2, 1977
8.65% Note Payable due in annual installments in 1984 through 1998	$100,000	$ —
7⅜% Sinking Fund Debentures due 1997	50,000	50,000
7½% Guaranteed Debentures due 1991	46,750	48,000
6.35% Note Payable due in annual installments through 1982	14,650	17,550
9%-9.20% Notes due in annual installments in 1980 through 1983	25,000	25,000
6½% Dutch Guilder Notes due in equal annual installments in 1979 and 1980	8,963	12,110
4.7%-8.5% Industrial Revenue Bonds maturing through 2000	18,637	12,770
Various other obligations	8,546	9,793
	272,546	175,223
Less current maturities	10,694	10,456
	$261,852	$164,767

The 7⅜% debentures require annual sinking fund payments of $2,000,000 in 1983 through 1987 and $4,000,000 in 1988 through 1997.

The 7½% debentures require annual sinking fund payments of $1,000,000 in 1979 and 1980, $2,500,000 in 1981 through 1985 and $3,500,000 in 1986 through 1990. The balance is due in 1991.

Under the most restrictive covenants of the various debt agreements, $121,400,000 of retained earnings at July 1, 1978 is available for payment of dividends and purchase of the company's stock. In addition, working capital of $150,000,000 must be maintained; working capital at July 1, 1978 was $489,962,000.

Payments required on long-term debt during the years ending in 1979 through 1983 are $10,694,000, $13,039,000, $11,233,000, $11,218,000, and $23,988,000, respectively.

Long-Term Leases
The corporation holds certain property and equipment under noncancelable lease agreements which have original terms of one to thirty years and frequently include renewal options of one to twenty years. Upon expiration, such leases are generally renewed or replaced by similar leases.

Recent changes in generally accepted accounting principles specify that certain noncancelable leases should be capitalized and the resultant assets and liabilities included in the balance sheet. Other leases, not to be capitalized, should be classified as operating leases. While these new requirements apply to leases entered into in 1978, the corporation entered into no significant capital leases during the year. In 1979, retroactive restatement of all such capital leases entered into prior to January 1, 1977 will be required. If these new requirements had been retroactively applied, the effect on net income for 1978 and 1977 would have been immaterial; at July 1, 1978, and July 2, 1977, net property would have increased approximately $33 million and $38 million, respectively, and the related lease obligations would be approximately $40 million and $44 million, respectively.

Total rent expense for 1978 and 1977 was approximately $42,500,000 and $45,000,000, respectively.

Future minimum annual fixed rentals required under noncancelable leases having an original term of more than one year as of July 1, 1978 are as follows (in thousands):

Year Ending in	Operating Leases	Capital Leases
1979	$15,000	$ 6,000
1980	11,000	6,000
1981	8,000	5,000
1982	6,000	5,000
1983	4,000	4,000
1984 to 1988	10,000	19,000
1989 to 1993	3,000	15,000
1994 to 1998	—	6,000
Thereafter	—	1,000

The corporation has a contingent liability for long-term leases on properties presently operated by others. The total minimum annual rentals under these leases average approximately $10,000,000 annually for years ending 1979-1983, $8,000,000 in 1984-1988, $5,000,000 in 1989-1993, and $1,000,000 in 1994-1998.

Income Taxes
The provisions for income taxes consisted of the following:

(in thousands)	1978			1977		
	Current	Deferred	Total	Current	Deferred	Total
Federal	$54,384	$10,560	$64,944	$59,548	$6,215	$65,763
Foreign	35,549	16,126	51,675	12,213	712	12,925
State	9,235	942	10,177	10,048	752	10,800
	$99,168	$27,628	$126,796	$81,809	$7,679	$89,488

The components of the deferred income tax provisions, which represent the tax effects of timing differences between financial and tax reporting, were as follows:

(in thousands)	1978	1977
Installment method for certain receivables	$ 3,634	$1,108
Excess of tax over book depreciation	2,212	4,820
Douwe Egberts base stock inventory	24,057	—
Other, net	(2,275)	1,751
	$27,628	$7,679

Since purchase accounting was utilized in recording the Douwe Egberts acquisition, the corporation was required to value acquired inventory net of the deferred taxes arising from the difference in the value of its inventory for tax purposes and for accounting purposes. Subsequent to acquisition, the inventory completely turned; accordingly, deferred taxes of $24 million were provided and cost of sales reduced by a comparable amount. This had the effect of artificially increasing the consolidated gross profit percent and the consolidated effective income tax rate, but had no effect on net income.

The adjustment mentioned above, investment tax credits and state income tax provisions represent the only significant differences between the statutory Federal income tax rate of 48% and the effective income tax rate.

Investment tax credits reduced the Federal income tax provisions by $3,222,000 in 1978 and $4,175,000 in 1977.

Pension Plans
The market value as of July 1, 1978, of the assets of the corporation's various pension funds approximated the vested benefits computed as of the most recent actuarial valuation dates. The unfunded past-service costs of the non-aggregate method plans were approximately $5,900,000. The approximate annual expense of all plans was $18,900,000 in 1978 and $14,400,000 in 1977.

Interim Financial Results
Following are the condensed unaudited quarterly results for 1978 and 1977:

(in thousands except per share data)		1978	1977
1st Quarter:	Net Sales	$ 783,560	$732,173
	Gross Profit	242,015	231,557
	Net Income	24,493	22,179
	Net Income Per Common Share	.78	.70
	Net Income Per Common Share Assuming Conversion of Preferred Stock	.75	.69
2nd Quarter:	Net Sales	$ 768,098	$715,866
	Gross Profit	241,921	233,329
	Net Income	23,355	21,058
	Net Income Per Common Share	.74	.67
	Net Income Per Common Share Assuming Conversion of Preferred Stock	.72	.65
3rd Quarter:	Net Sales	$ 930,205	$709,359
	Gross Profit	287,747	229,481
	Net Income	22,024	19,847
	Net Income Per Common Share	.70	.62
	Net Income Per Common Share Assuming Conversion of Preferred Stock	.68	.61
4th Quarter:	Net Sales	$1,053,704	$775,431
	Gross Profit	318,748	256,573
	Net Income	30,761	27,399
	Net Income Per Common Share	.99	.88
	Net Income Per Common Share Assuming Conversion of Preferred Stock	.95	.84

Litigation
The corporation is a party to several pending legal proceedings and claims, including unresolved claims for penalties and additional duty payments asserted by the United States Bureau of Customs. Although the outcome of such proceedings and claims cannot be determined with certainty, the corporation's general counsel and management are of the opinion that their final outcome should not have a material adverse effect on the corporation's operations or financial position.

Consolidated Foods Credit Corporation

Consolidated Foods Credit Corporation, a wholly-owned subsidiary, purchases certain customer installment accounts from Consolidated Foods Corporation without recourse at a price which is designed to produce earnings, as defined, of 1½ times the fixed charges on the Credit Corporation's debt.

Net income of the Credit Corporation was $911,000 for the year ended July 1, 1978, and $1,075,000 for the year ended July 2, 1977, after interest expense of $2,392,000 and $1,800,000, respectively. The accompanying consolidated statements of income include the net income of the Credit Corporation in "Selling, general and administrative expenses." Condensed Statements of Stockholder's Investment in the Credit Corporation at July 1, 1978, and July 2, 1977 are as follows:

(in thousands)	1978	1977
Customer installment accounts, less allowances	$ 55,715	$ 48,722
Commercial paper	(36,915)	(35,905)
Other, net	(5,455)	(383)
Stockholder's investment, including retained earnings of $3,345 in 1978 and $2,434 in 1977	$ 13,345	$ 12,434

Unaudited Replacement Cost Data

Principally due to the long-term cumulative impact of inflation, the replacement cost of productive capacity and associated depreciation expense would be substantially greater than the historical costs reported in the accompanying financial statements.

Unaudited information relating to the estimated replacement cost of inventory and productive capacity and the pro forma impact of these costs on depreciation and cost of merchandise sold, as required by the Securities and Exchange Commission, is contained in the corporation's Annual Report on Form 10-K.

Event Subsequent to Year-End

As of September 1, 1978, the corporation has acquired 881,600 shares of the common stock of Hanes Corporation (representing approximately 20.5% of total outstanding shares) at an aggregate cost of $40,262,000. Hanes had total assets and net sales of $228,950,000 and $414,158,000, respectively, at December 31, 1977, its most recent year-end.

Auditors' Report

To the Board of Directors and Stockholders,
Consolidated Foods Corporation:

We have examined the consolidated balance sheets of CONSOLIDATED FOODS CORPORATION (a Maryland corporation) AND SUBSIDIARIES as of July 1, 1978, and July 2, 1977, and the related consolidated statements of income, stockholders' equity and changes in financial position for the fiscal years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We did not examine the financial statements of Douwe Egberts, B.V., acquired in 1978, which statements reflect total assets and revenues constituting 25% and 11%, respectively, of the related consolidated totals for 1978. These statements were examined by other auditors whose report thereon has been furnished to us and our opinion expressed herein, insofar as it relates to the amounts included for Douwe Egberts, is based solely upon the report of other auditors.

In our opinion, based upon our examination and the report of other auditors in 1978 referred to above, the accompanying financial statements present fairly the financial position of Consolidated Foods Corporation and Subsidiaries as of July 1, 1978, and July 2, 1977, and the results of their operations and the changes in their financial position for the fiscal years then ended, all in conformity with generally accepted accounting principles consistently applied during the years.

ARTHUR ANDERSEN & CO.

Chicago, Illinois,
August 21, 1978
(Except for the matter discussed in "Event Subsequent to Year-End" note as to which the date is September 1, 1978).

Board of Directors

John H. Bryan, Jr.	Chairman and Chief Executive Officer Director since 1974
John J. Cardwell	President Director since 1976
Nathan Cummings	Founder and Honorary Chairman of the Board Director since 1941
Tilden Cummings	Corporate Director; retired President, Continental Illinois Corporation and its subsidiary, Continental Illinois National Bank and Trust Company of Chicago Director since 1961
John T. Fey	Chairman of The Equitable Life Assurance Society of the United States Director since 1977
Richard E. Guggenhime	Senior Partner, Heller, Ehrman, White & McAuliffe, Attorneys at Law Director since 1970
Robert C. Gunness	Corporate Director; former President, Standard Oil Company (Indiana) Director since 1975
William A. Jennett	Vice Chairman, Baxter Travenol Laboratories, Inc. Director since 1975
Hugh Krayenhoff	Vice Chairman, Akzo, N.V. Elected a Director in June 1978
Beatrice C. Mayer	Civic Leader in Social Welfare and Fine Arts Director since 1974
Paul W. McCracken	Edmund Ezra Day University Professor of Business Administration at the University of Michigan Director since 1975
Charles A. McKee	Executive Vice President; President and Chief Executive Officer, Electrolux Director since 1971
J. Dean Muncaster	President, Canadian Tire Corporation, Ltd. Director since 1975
Milton J. Schloss	Executive Vice President; Chairman and Chief Executive Officer, Kahn's Director since 1967
Richard L. Thomas	President, The First National Bank of Chicago Director since 1976

Committees of the Board

Executive
John H. Bryan, Jr., Chairman
John J. Cardwell
Nathan Cummings
Tilden Cummings
Robert C. Gunness
Richard L. Thomas

Audit
William A. Jennett, Chairman
Tilden Cummings
Robert C. Gunness
Paul W. McCracken

Finance
Tilden Cummings, Chairman
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John J. Cardwell
Nathan Cummings
John T. Fey
Robert C. Gunness
Charles A. McKee
Milton J. Schloss
Richard L. Thomas
William T. White, Jr., Secretary

Compensation and Organization
Robert C. Gunness, Chairman
Nathan Cummings
Richard E. Guggenhime
J. Dean Muncaster
Richard L. Thomas

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John H. Bryan, Jr., Chairman
John J. Cardwell
Tilden Cummings
Robert C. Gunness
Richard L. Thomas

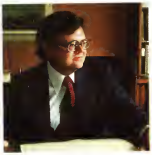
Public Responsibility
Beatrice C. Mayer, Chairperson
John H. Bryan, Jr.
John J. Cardwell
Tilden Cummings
Paul W. McCracken
D. Gerard Daly, Executive Secretary

Corporate Officers

John H. Bryan, Jr.	Chairman and Chief Executive Officer
John J. Cardwell	President
Charles A. McKee	Executive Vice President
Milton J. Schloss	Executive Vice President
Thomas F. Barnum	Senior Vice President
Allan Elston	Senior Vice President
Alan J. Glazer	Senior Vice President-Chief Financial Officer
Robert Jaunich, II	Senior Vice President
William P. Mahoney	Senior Vice President
Gordon H. Newman	Senior Vice President, Secretary and General Counsel
James B. Prigoff	Senior Vice President
James P. Schadt	Senior Vice President-Corporate Development and International
Dave Center	Group Vice President
Frank W. Holas	Group Vice President
R. Roy Pearce	Group Vice President
Daniel J. Brennan	Vice President-Taxes and Insurance
Frederick W. Brown	Vice President-Employee Relations and Chief Administrative Officer
Norman L. Harritt	Vice President-Financial Planning and Control
Robert M. Lynch	Vice President-Human Resources
Louis van Wagenberg	European Vice President
William T. White, Jr.	Vice President and Treasurer
John Wolbers	European Vice President
Richard G. Rademacher	Associate Controller
Martin G. Carver	Assistant Treasurer-Director of Financial Relations
Benjamin R. Gilliatt	Assistant Treasurer-Director of Corporate Finance
James R. Carlson	Assistant Secretary
Thomas H. Gorden	Assistant Secretary
Floyd G. Hoffman	Assistant Secretary

Charles A. McKee, Paul W. McCracken, Richard L. Thomas

Nathan Cummings, John T. Fey



J. Dean Muncaster

Tilden Cummings

Milton J. Schloss, Robert C. Gunness

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William A. Jennett, John J. Cardwell, Richard E. Guggenhime


Alan J. Glazer, Charles A. McKee


Daniel J. Brennan, Allan Elston, Milton J. Schloss


William T. White, Jr., Robert Jaunich, II


Frank W. Holas, William P. Mahoney, Robert M. Lynch


Leo van Dongen, James P. Schadt, John Wolbers, Louis van Wagenberg


Sam D. Thompson, Jr., Frederick W. Brown


Thomas F. Barnum, James B. Prigoff, Gordon H. Newman


Norman L. Harritt, Dave Center, R. Roy Pearce

Transfer Agents
Continental Illinois National Bank and Trust Company of Chicago
Chicago, Illinois

The Chase Manhattan Bank, N.A.
New York, New York

Registrars
The First National Bank of Chicago
Chicago, Illinois

Morgan Guaranty Trust Company of New York
New York, New York

Auditors
Arthur Andersen & Co.
Chicago, Illinois

Common Stock Listings
New York Stock Exchange, Inc.
Midwest Stock Exchange, Incorporated
Pacific Stock Exchange, Incorporated

Preferred Stock Listing
New York Stock Exchange, Inc.

Debenture Listing
New York Stock Exchange, Inc.

Trading Symbol
CFD

Executive Offices
135 South LaSalle Street
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(312) 726-6414

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